

JPRS 80340

17 March 1982

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2246

FBIS

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HUNGARIAN ARTICLE VIEWS ALBANIA'S ECONOMY, FIVE-YEAR PLAN

Budapest KULGAZDASAG in Hungarian No 2, Feb 82 pp 61-67

[Article by Gyorgy Reti, research worker in the Hungarian Foreign Affairs Institute: "Albania's Economy and the New Five-Year Plan"]

[Text] The document on the Albanian Seventh Five-Year Plan emphasizes that "this is the first time that our party and people are working out and realizing a five-year plan by relying entirely on their own resources." Following the break with the PRC, Albania enacted into its constitution the provision that in the future it will not accept credits and assistance from abroad. A centrally determined plan in every detail, a faith in the power of moral-consciousness education in place of material incentive, and the explanation of socio-economic problems by handling them mainly at the ideological level and as the intrusion of bourgeois-revisionist principles--these are the characteristics of the small Balkan country which have become known to the outside world. Without implying that any country can boast of plan indexes free of cosmetics, we can at the best make only deductions from the official announcements that rely on the indexes and from texts that are tantamount to "victory pronouncements" regarding the course being followed by the Albanian economy, surmise its detours and possibly its pitfalls and its hairpin curves. On the basis of available data resting on uncertain methods, the author assumes a number of important phenomena, for example, that the extensive reserves of Albanian agriculture are at the point of exhaustion. Otherwise, as compared to the previous five-year plan, the new plan signals an advance in two areas--transportation and export. Foreign trade, the only "umbilical cord" which ties the Albanian economy to the world economy, will be the most dynamically developing sub-branch by 1985 with its more than 50 percent increase as planned.

Results and Problems of Economic Development

Albania has undergone significant economic development in the past 35 years, and the backward agrarian country has become an agrarian-industrial country. At the same time, we can state that this development has been extremely rapid only in comparison to its own former development because in regard to its economic development Albania still lags significantly behind the level of the European socialist countries.

A realistic evaluation of the Albanian economic situation is made more difficult by the fact that as of the mid-1960's it hardly publishes actual production data, only the percentage ratios of growth. Thus we can obtain the more or less accurate data on the basis of earlier published data and ratios.* The Albanian economy has been one of the most rapidly developing economies in Europe also because of the extremely low starting points. In fact, despite significant development in comparison with itself, the Albanian economy is struggling with numerous objective and subjective difficulties:

Table 1. The Most Important Indexes and Annual Average Rates of Growth in the Albanian Economy Between 1951-1980, in the period of six five-year plans (in percent)

Total social product	8.7
National income	7.4
Industrial production	12.4
Agriculture	5.0
State investments	9.2

The historical backwardness is difficult to overcome because of the subjective economic policy of the Albanian leadership which leads to contradictions between goals and plans as well as objective possibilities. It can be ascribed to this fact that despite the significant increases only rarely have they succeeded in fulfilling the high indexes of the plans. Because of the rigid planning system, which is centrally determined in every detail, the role of enterprise incentive and initiative is forced into the background.

By making absolute the otherwise correct principle of reliance on "its own resources" and because of mistrust of the outside world, Albania is obstructed from adopting the achievements of the technical-scientific revolution. ("The complete building of a socialist society," said E. Hoxha in this respect at the 7th Congress of the Albanian Workers Party, "is closely related to the realization of the principle of self-reliance in every area and every phase of life. This great Marxist-Leninist and profoundly revolutionary principle is not only the law of building socialism but--in the present period--an urgent necessity for our country successfully to overcome the blockade and encirclement by the enemy.")

Albania is still in the extensive stage of its economic development where they still regard quantitative indexes more important than qualitative. Still characteristic of Albanian economic life is a voluntarist economic management which undervalues technical norms.

*Most of the data we give in the present study are derived from the following works: "35 vjet Shqipëri socialiste" (Statistical Reference, Tirana, 1979); E. Hoxha and M. Shehu: lectures delivered at the AMP 7th Congress, Tirana, 1976; Gyula Varadi: Albania (a study from "Economies of the European Socialist Countries" Kossuth, 1975); Gyorgy Reti: "What Need We Know About Albania?" Kossuth, 1981; and the plan announcement of June 1981 (ZER I POPULLIT, 19 June 1981).

The economic development which uses forced and extensive methods increases the manpower shortage. This causes problems particularly in agriculture, where the degree of mechanization is still very low. To a great extent, they use the urban population, the young and the military for season agricultural work and for road and railroad construction. In contrast to a process that is evident in the world economy, a campaign is underway in Albania to repatriate a part of the urban population to the villages. But this process is creating a manpower shortage in industrial production. (At the same time, there is a significant amount of "indoors unemployment" because of the inadequate use of manpower.)

Despite the development that has taken place, the level of mechanization in industry and agriculture--and as a consequence, work productivity--is still very low. Most of the machinery used in industry and agriculture is worn out in every respect, and lags far behind the world level.

The ratio of savings is very high in the consumption of the national income because of the accelerated rate of industrialization and the slack investment activity. Albania is perhaps Europe's only socialist country where the ratio of savings in recent decades has not declined below 33 to 34 percent. And from this derives the relatively low level of consumption as one of the characteristics of economic development.

Insufficient means are available for the development of agriculture and for raising the people's living standards because of the accelerated industrial development. Table 2 shows how the various sub-branches of the economy shared in the investments of the six five-year plans.

Table 2. Share of the Economic Sub-Branches in Investments of the Six Five-Year Plans (in percent)

Sub-branch, branch	1951-1955	1955-1960	1961-1965	1966-1970	1971-1975	1976-1980
Industry	52	44	49	46.6	65.7	53.1
Agriculture	12	18	15	16.0	11.7	14.7
Transport and Communications	13	13	11	11.4	5.7	6.0
Housing Construction	8	8	8	6.9	4.9	5.2
Education, Culture and Health	6	5	4	5.4	3.6	2.5
Other	9	12	13	13.7	8.4	18.5

While in general more than one-half of the investments were devoted to industrial goals, it is apparent from the table that 12 to 18 percent was for agricultural development. Investment activity was relatively very low in the field of housing construction, education and health, which decisively influence the living standards of the population.

In order to increase production and productivity, they are granting priority to an excessive degree to moral-consciousness education as opposed to the inevitable material incentives in socialist production. Political campaigns for increasing production weave through the lives of the Albanian workers; these are

not adequately paired, however, with a greater material appreciation for better work. For this reason and for the contradictions between high-sounding slogans and the realities of life, the apathy of the workers is increasing, and their indifference toward work. The Albanian press also reports regularly on the manifestation of these negative phenomena--as "an intrusion of bourgeois-revisionist ideology."

The omission of PRC assistance represents a serious but not unsolvable problem for the Albanian economy. Albanian and PRC sources publish rather differing data on the extent of the assistance. According to the note of 7 July 1978 on the termination of assistance, the PRC extended between 1954 and 1978 more than 10 billion yuans' (about 5 billion dollars) worth of assistance and credits, and cooperated in the establishment of 142 facilities. Six thousand PRC economic and military experts worked in Albania, and more than 2,000 Albanian specialists were trained in the PRC. The PRC delivered 1.8 million tons of wheat, more than a million tons of steel, and 10,000 tractors to Albania. Albania also received large volumes of free arms shipments. In contrast to the above data, according to the 29 July 1978 note, the total PRC credits came not to 10 billion but only to 3.5 billion yuans, and the Albanians used only 75 percent of the latter sum. PRC grain deliveries amounted to only 436,000 tons. Only 74 percent of the equipment for the Elbasan iron works was delivered. There was an average delay of 1 to 6 years in the completion of facilities, built by the PRC. The PRC experts burned, and they left many investments unfinished. According to Albanian documents, Albania delivered between 1954 and 1977 1.7 million tons of petroleum, more than 1.3 million tons of bitumen, 2.7 million tons of chrome ore and other commodities to the PRC. The events of the 3 years that have elapsed since the PRC-Albanian rupture show that the Albanian leadership is seeking to solve its problems through diversification of foreign economic relations.

Up to now the Albanian budget has suffered from a chronic deficit. In the 1950's and 1960's the extent of this deficit came to half the annual budget, and in the 1970's to 5 to 25 percent. Formerly, the budgetary deficit was covered with the help of foreign credits and assistance. Following the rupture with the PRC, they stated constitutionally that in the future Albania will not accept credits and assistance. As a consequence, the 1979 and 1980 budgets take only domestic resources into account. However, this undoubtedly limits the budgetary sums that can be devoted to the improvement of economic development and living standards, and this situation does not contribute to reducing Albanian backwardness in these areas.

Serious problems still exist in the field of plant and financial discipline. This was acknowledged by E. Hoxha in the most recent report to the Congress, placing responsibility on the Ministry of Finance and the National Bank "for the bureaucratic and liberal concepts" manifest in this area.

Fulfillment of the Albanian Sixth Five-Year Plan, and Guidelines for the Seventh

They published in Tirana in June 1981 and opened to public debate the report on the fulfillment of the economic plan and the guidelines of the next. In analyzing the 30-page document, we must proceed with these in mind: 1. Albanian

documents similar to this can be regarded as "victory pronouncements," which give indications only rarely, and then only "between the lines," of problems and negative features; 2. As usual, Albania does not publish concrete production data but only relative ratios in percent. Despite this, by using the earlier documents, a relatively objective picture can be gained of the situation and the plans of the Albanian economy.

Regarding the completion of the main tasks of the Sixth Five-Year Plan (1976 to 1980), the document states: "In this period the producer forces continued to develop, the social product became substantially greater, production relations were improved, education and culture were raised to a higher level, and the scientific-technical revolution deepened." It also emphasizes that "we achieved the successes as a result of the titanic struggle of our party and people amid the extremely difficult and characteristic circumstances of the savage imperialist-revisionist blockade and encirclement and amid the difficulties created by the inimical activity and sabotage of the Chinese revisionists against our country."

As for the main economic indicators, they do not publish data on the growth of the national income, from which one may conclude that they lagged behind the 30 to 40 percent increase they had planned for the 5 years. Since it is unlikely industry with its 6.1 percent annual increase in the rate of growth lagged behind the index, the lag must be ascribed chiefly to agriculture, which increased overall production by only 21 percent instead of the planned 38 to 41 percent. In industry, the weight of the A-sector for creating means of production increased to 64 percent as compared to the earlier 56.8 percent.

In particular, the energetics industry developed rapidly. Electric energy tripled (due primarily to the three turbines at the Fierza hydroelectric power station), and coal production attained the lower level of the planned 63 to 65 percent increase. New natural gas and petroleum deposits were discovered, but the specific index as published indicates that they did not fulfill the planned increase of 27 to 29 percent.

The 57.7 percent increase in the machine industry is substantially greater than the targeted 40 to 42 percent. It can be attributed to this that 95 percent of the spare parts requirements of Albanian industry is manufactured domestically. The omission of specific data indicates that despite the "striking progress" referred to in the report, the goals (which we put here in parentheses) were not fulfilled in chrome and copper mining (71 to 73 percent and 40 to 42 percent respectively), in the chemical industry (140 to 145 percent), in the construction industry (50 to 53 percent), or in the paper industry (18-20 percent). No mention is made at all of iron-nickel production, one of the basic sub-branches of Albanian industry. It may be assumed that this sub-branch was the one that lagged most behind an unrealistically high goal (500 to 510 percent).

The report speaks of the further development of the manufacture of consumer goods. The decrease in the specific weight of the B-sector and the lack of concrete data indicate here also that they did not fulfill the goals. We have already spoken of the overall lag in agriculture. Among successes, the report mentions that agriculture is now regularly producing the bread grain needs of the country, the irrigated areas have increased by 40,000 hectares, and the

production of fertilizer rose by 50 percent. Since it is not mentioned, it may be assumed that they did not fulfill the high goals in increasing production yields, or in fruit production and livestock breeding.

The volume of investments increased by only 15 percent instead of the planned 35 to 38 percent. Apparently this can be explained by the absence of PRC assistance on which they had counted when the plan was prepared. The most important investments of the Sixth Five-Year Plan were: various new operational units at the Elbasan metallurgical combine; the Ballsh oil refinery; the three turbines of the Fierza hydroelectric power station, the Burel ferro-chrome factory, the Lacs copper foundry, the 220 kilovolt transmission line between Fierza, Burel and Elbasan, and the Prrenjas-Guri i Kuq railroad line that carries ore to the Elbasan combine.

In commodity deliveries they attained the lower level of the 30 to 32 percent planned growth. In 1980 they continued the construction of the railroad linking together Tirana and Titograd. It is a question, however, whether the 1981 events at Kosovo will not delay the finish of Albania's first international railroad.

According to the report, foreign trade has "overcome those difficulties which derive from the rupture of commercial relations with the PRC revisionists." This means that they succeeded in transferring primarily to East and West European markets the commodities from the relation that made up about one-half of their foreign trade.

In respect to living standards, they "succeeded in maintaining and improving the living standards of the working masses." Since the document is silent on the planned 11 to 14 percent increase in real incomes, it may be assumed that in Albania, too, maintenance rather than improvement of living standards was in the forefront. In the past 5 years, 20,000 persons received higher education, 57 percent more than in the previous plan period.

The part dealing with plan fulfillment concludes that "we successfully fulfilled the basic tasks of the Sixth Five-Year Plan," and "these successes represent a significant step on the path leading Albania toward becoming an industrial-agrarian country." It is another matter that the attainment of the latter goal was already set for the beginning of the 1960's.

The document describes the main tasks of the Seventh Five-Year Plan as follows: "The development of the economy in all respects, the deepening of the country's socialist industrialization, the intensification and strengthening of agriculture, increased work productivity, and the deepening of the scientific-technical revolution amid conditions of socialist production relations. The goal is to see that the material welfare and cultural level of the working masses should be assured and continue to increase, and that the socialist order and the capability of defending the country should be further strengthened." In the table below we compare the main goals of the Sixth and Seventh Five-Year Plans.

Table 3. Main Goals of the Sixth and Seventh Five-Year Plans (in percent)

Designation	1976-1980	1981-1985
National income	38-40	33-35
Overall industrial production	41-44	34-36
Overall agricultural production	38-41	31-33
Transportation	30-32	36-38
Investments	24-26	56-58
Export	24-26	56-58
Productivity in industry	15-17	13-15
Retail trade	22-25	22-24
Per capita real income	11-14	8-10

It is evident from the foregoing that the goals of the Seventh Five-Year Plan are lower than those of the Sixth Five-Year Plan, except for transportation and export.

The main factors of industrial growth are: the rational use of basic materials to be found in the country, better utilization and reconstruction of existing producer capacities. The A-sector (38 to 39 percent) is still given priority over the B-sector (29 to 31 percent). The main task of the energetics industry is the development of the petroleum and natural gas industry. They hope to attain the remarkably high growth of 56 to 58 percent primarily by the rational and scientific utilization of existing producer facilities. The coal production growth index is 48 percent, and electric energy 15 percent. The latter rather low index indicates that they still do not count on having the biggest Albanian hydroelectric power plant enter in production at Koman during this plan period.

They want to achieve a 29 percent increment in chrome ore, 52 percent in copper ore, and 250 percent (!) in iron-nickel production. They plan to increase iron and nonferrous metal metallurgy accordingly. The growth rate for the machine industry is 38 to 40 percent, for the chemical industry 60 to 63 percent, and 24 percent for the construction material industry. The light industry goal is 37 to 39 percent, and food industry 20 to 22 percent. Here the document urges a "radical improvement" in the quality of the products and the production of new consumer items.

According to the document, the main requirements of Albanian agricultural development are: the intensification of production, the cultivation of the soil on scientific bases, the enhancement of sowing seeds, and the specialization of production. Ninety percent of the increment must derive from productivity increase. All this indicates that the possibilities for extensive agricultural development have been exhausted in Albania also. The average 31 to 33 percent growth must come from the following: bread grain 20 percent, corn 26 percent, sugar beet 42 to 45 percent, sunflower 56 to 58 percent, cotton 56 to 59 percent, and tobacco 46 to 49 percent. The draft plan also faces livestock breeding with big tasks: an increase in milk production of 29

to 31 percent, meat production 53 to 55 percent, egg production 50 to 52 percent, and wool production 34 to 36 percent. It emphasizes the need for type enrichment and for assuring the fodder basis. Fruit production must increase on the average by 35 to 37 percent. As in the previous five-year plan period, they wish to increase the size of the irrigated area by 45,000 hectares.

The Seventh Five-Year Plan is also characterized by a very high ratio of 31 to 33 percent for the savings base. At the same time, the volume of investments has been set at 23 to 25 percent growth instead of the planned 35 to 38 percent for the previous plan period. The plan emphasizes the need for better concentration of human and material and resources and the need for shortening construction deadlines.

In transportation, priority is given to railroad transport, which must be increased by 80 to 84 percent. The statement in the plan that "the construction of the new railroad lines and the branch lines must continue without interruption" may be taken as a sign: despite deteriorated relations they want to continue the construction of the railroad line connecting Albania with Yugoslavia.

According to the plan, foreign trade will be one of the most dynamically developing sub-branches in the Albanian economy: the planned 52 to 55 percent increase is more than double what it was for the previous plan period. They are now again urging the more rapid development of export (56 to 58 percent) than import, and the need for replacing import with domestic goods.

The indexes for growth in living standards are lower than those for the previous plan period. Real income will increase by only 8 to 10 percent instead of 11 to 14 percent. The plan counts on the construction of 50,000 state and 31,000 cooperative houses.

The document emphasizes that "this is the first time our party and people are working out and realizing a five-year plan by relying on their own resources and without any kind of credit and assistance whatsoever...."

In summary, it may be stated that the draft of the Seventh Five-Year Plan was conceived under the sign of the economic policy that has been followed up to now. On one hand, its essence is rigid central management, and on the other hand seclusion from modern forms of international work distribution. Foreign trade continues to be the only "umbilical cord" which links the Albanian economy to the world economy. All this, however, does not make it easier for Albania to move up to the level of the medium developed countries.

The draft plan was approved in November 1981 by the 8th Congress of the Albanian Workers Party on the basis of the speech by Prime Minister Mehmet Shehu, who died recently amid mysterious circumstances.

DECREE EXPANDS REWARDS, PENALTIES FOR ECONOMIC PERFORMANCE

Explanation of Decree

East Berlin DIE WIRTSCHAFT in German Vol 37 No 2, 11 Feb 82 pp 8-9

[Article by Harald Rost, deputy chairman, State Planning Commission: "For the Improvement of Economic Accounting." A translation of the official text of the Council of Ministers Decree under discussion is published following this article]

[Text] Main Trends:

1. Tightening Cost Planning and Its Normative Base.
2. Closer Links Between Performance and Efficiency Development and Assets Formation and Utilization.
3. Showing Actual Economic Costs in Industrial Prices.
4. Speeding Up and Raising the Economic Effectiveness of Science and Technology and Investments.
5. Higher Combine Responsibility for Solving Foreign Economy Tasks.
6. Tightening Working Capital Planning and Speeding Up the Turnover of Inventories Also Through Re-organizing Credit, Interests and Production Fund Dues.

In implementation of the 10th SED Congress resolutions, important tasks in further improving economic management and planning were initiated in recent months. They are aimed at organizing and further developing our proven socialist planned economy so that it will increasingly better conform to the requirements of our party's economic strategy for the 1980's. That includes measures for improving the efficiency and effectiveness of the combines, e.g. by perfecting the performance evaluation and the assigning of foreign trade tasks to the combines, as well as the first steps toward fundamental improvements in materially balancing the economy on all levels and the perfecting of management and planning in science and technology and in investments. Closely linked with that is the task to improve economic accounting further so as to turn the improvement of the cost/benefit ratio into the criterion that will govern economic thinking and action in all enterprises and combines, down to every working person. The authoritative objective for it was described in the SED Central Committee report to the 10th party congress by Comrade Erich Honecker, secretary general of the SED Central Committee, as follows: "A critical change of

in the cost/benefit ratio is the fundamental economic requirement for the years ahead. This fact must be fully reflected in the economic situation of the combines and enterprises and in the production collectives. All collectives that reach or exceed their production quotas while reducing their costs according to plan ought to derive still more of a benefit from their great achievements. Good work should become worthwhile in every case. The main thing is to stimulate the reduction of production consumption and of prime costs. This is how we shall further develop economic accounting as based on the plan." To implement this objective, extremely important as it is for the effectiveness of the planning system, the SED Central Committee Politburo issued appropriate measures on 3 November 1981. On their basis, close cooperative activities have been prepared between central state organs, economic research institutions and experienced practitioners from combines and enterprises, enacting the "Improvement of Economic Accounting on the Basis of the Plan." What is new about it is that it is a uniform, cohesive, complex decree combining all the requirements, tasks and measures for improving economic accounting. The experiences of progressive combines and enterprises have crystallized in this decree. What are its main trends?

1. It is taken as an accepted fact that economic accounting is closely linked with the national economic plan and is prepared on its basis. Therefore the measures for improving economic accounting start with our tightening our cost planning and its normative base. The binding authority of the cost plan is raised considerably. That sets the basis for still more consistently and purposefully organizing, on the basis of the plan, the effort at reducing costs--this centerpiece of economic accounting--on all economic levels. With it, it has been stipulated that costs per 100-Mark commodity production (planning costs of planned production), as allocated by the national economic plan, must in the future become the authoritative and unalterable yardstick for the combines and enterprises in keeping to their total prime costs. When production assortments are changed in the course of a plan year, it is no longer permissible to alter the planned costs per 100-Mark commodity production. Rules up to now had allowed for adjusting upward planned cost in the course of a plan year when assortments were changed. Some enterprises would use that for dodging the economic obligation to reduce costs systematically. Now that is not possible anymore. Now we make it possible for the economic requirements to reduce production consumption and improve the cost/benefit ratio to become effective, without restraint, in the performance rating and economic accounting of the combines and enterprises. To improve the effects costs and funds can have on reducing production consumption, the cost and financial plans of the combines and enterprises have to be prepared on the basis of and in full conformity with the state allocations in terms of standards, norms, inventory shares, contingents and limits for reducing the consumption and making rational use of raw materials, energy, fuels and propellants, material and working materials. Finance inspections have demonstrated that fulfilling this demand for conformity between material and financial planning, though it should be in effect everywhere, has by no means yet become standard procedure.

To tap further reserves in a targeted manner for cost reduction, the general directors of the combines have been charged with the task to allocate additional progressive norms to the enterprises, apart from the centrally allocated cost parameters, for reducing the following cost packages:

- Energy and fuels;
- Rejects, make-up work and repairs under warranty;
- Shipping costs;
- Advertising; and
- Other ancillary supply costs per 100-Mark commodity production.

Utilizing the experiences of advanced combines, to improve cost discipline and the effectiveness of economic accounting, costs that may not be planned are more precisely defined and given an authoritative nomenclature. Penalties for delays in the loading and unloading of freight cars are included in this nomenclature and thus will in the future no longer be paid out of the working funds.

From a cost reduction that exceeds the state plan figures and the higher profits earned from it, the combines and enterprises get extra opportunities for receiving bonuses and working funds. In this, the conditions for forming and using working funds are altered so that material and energy savings are becoming much more important.

In connection with more effectively inducing work collective initiatives for cost reduction, the task has been assigned further to develop intra-plant economic accounting in order to combine more closely the planning with emulation management, the budget and the bonuses. Collectives making a high contribution to cost reduction are the ones that are to receive material recognition.

2. The high criteria the 1981-1985 Five-Year Plan has issued for efficiency improvements and reducing public costs also require significantly raising the responsibility the enterprises and combines have for producing and passing on the planned state budget revenue. The consideration here is that the profit as planned by the state expresses the contribution by the combines and enterprises to raising the national income.

Combines and enterprises absolutely must meet their financial obligations to the state budget, even when the planned net income was not fully achieved. If the profit produced for it does not suffice, combines and enterprises have to use some funds of their own. The bank has to be informed about which funds of their own were used for it. Payments of wages and bonuses to the working people in accordance with their performance have to be secured, of course, in line with prevailing legal regulations. These regulations exclude the thus far possible automatic reduction in tax obligations to the state budget when a profit plan was not fully met.

With the measures for improving economic accounting, the connection is strengthened between performance and efficiency development on the one side and the formation and utilization of own funds by the enterprises and combines, on the other. When costs exceed their limits, the manager on the higher level will close certain financial funds, means and allotments until the situation returns to being according to plan.

Furthermore, a close link between efficiency and liquidity in the combines and enterprises is established by strengthening the connection between their own funds and their control on suitable special bank accounts, preventing the use of temporarily available money to make up for irregularities, and enforcing payment discipline--even by raising the effect of credit and interests.

3. The effectiveness of economic accounting is largely governed by industrial prices. The measures issued for industrial prices emphatically support the reduction in production consumption, the acceleration of scientific-technical progress, and an extensive use and enhanced refinement of domestic raw materials. Industrial prices for products must reflect the actual economic costs of their production. That requires setting industrial prices in the years ahead that conform to the rapid international price hikes and the greater expense in producing domestic raw materials and energy sources. And the industrial prices and price increases are handled in such a way that the producers as well as the users become interested in the solving of the economic requirements for resolutely reducing production consumption and enhancing the products' degree of refinement.

We maintain and further perfect the proven principle to set prices for new products on the basis of economic costs and with regard to economic benefit, which uniformly affects the producers and buyers in our economic accounting.

For preparing proposals on cost and price indicators and for the industrial prices for new and further developed products, the anticipated international scientific-technical level must be taken more strongly into account. More importance must be attached to the parameters which decidedly give the products world marketability, e.g. the input/output ratio, the specific energy consumption and specific space and area requirements, in setting prices according to the cost/benefit ratio.

Rising industrial prices stimulate the producers' interests in making commodities that need less material and show a high degree of refining, and new high-grade consumer goods, excellent in quality and design. That recognizes the efforts in more highly refining raw materials and energy sources and in the production of most up-to-date techniques and technology and ensures a higher net production and more of a profit than unrefined products do.

In principle, prices are set uniformly for producers and buyers. And when products are insufficiently refined, it cuts more into the profits of their producers. The sales prices are thereby not reduced.

Actual efforts are not considered as determinants when higher sales prices are set to stimulate, in a targeted manner, a substitution for the thriftiest use of economically important energy sources and raw materials.

So that industrial prices put more economic pressure on reducing prime costs, the plan is that state pricing organs systematically reduce sales prices within the framework of annual industrial price modifications for products bringing in excessive profits. More than previously, discounts are offered for technically obsolete commodities.

4. Through improving economic accounting, better conditions are created for the acceleration of scientific-technical progress, a higher economic effectiveness of science and technology, and a more efficient preparation and placing of investments. Starting with 1982, combines will be allocated efficiency criteria pertaining to the growth in profit, output, net production, export and labor productivity, always in relation to the efforts of science and technology and of investments. This makes feasible and accountable, within the scope of economic accounting, the task posed by

the 10th party congress, to wrest a higher use value from every Mark put into research and investments. Research draft commitments as much as basic decisions on investment projects are firmly tied into the planning structure and economic accounting. That has the implication that the economic benefit projected for the year in which production becomes fully effective, according to draft commitments and basic decisions, are included and accounted for at their full rate in the combine and enterprise plan--investments taking account of the run-in curve.

An indispensable prerequisite for financing R&D tasks and investment projects in the combines and enterprises are draft commitments and basic decisions authorized separately by the funding source. They must make mandatory the state-allocated minimum requirements for economic efficiency, related to a concrete topic or project. Financing is made on the basis of the plan in a task or project-related manner exclusively. The bank exercises controls about it.

Banks may grant combines and enterprises credits or credit extensions under preferential conditions for an ahead-of-schedule or concentrated production and a speeded-up transition of planned R&D tasks into production and for encouraging an overfulfillment of planned performance and efficiency quotas. Credit extensions may also be made available for quick reactions to export and domestic market needs and for speeding up the reduction of production consumption.

Production fund dues and a more differentiated handling of them will more effectively stimulate in the future the scheduled placing of investments, the modernization and rationalization of basic assets and the utilization of the base capital.

For means of rationalization toward releasing manpower, the reduction of energy and material consumption, and improving foreign trade effectiveness, lower-interest credits may be granted within the framework of the planned material investment funds.

5. The measures that were introduced are aimed at also making effective in economic accounting the contribution of the combines and enterprises to solving the foreign economy tasks and the greater responsibility of the general directors of the combines to the foreign economy field. For that purpose the combines, beginning in 1982, will gradually be given state tasks and targets for foreign exchange revenue. The responsibility of the general directors of the combines thus is being expanded beyond the production and delivery of export commodities to ensure foreign exchange income. Combine responsibility for making the combine enterprises more lucrative in terms of exports is being further extended.

The output of foreign trade enterprises attached to the combines will in the future be included in the combines' overall output. This creates important preconditions for directing the effort in meeting export tasks in the combine and the foreign trade enterprise from uniform economic positions.

The economic stimulation of the combines' exports is made more strongly dependent on the increased export lucrativeness--particularly by improvements in the export structure.

6. The planning of working capital in the enterprises and combines is being further refined with the purpose of combining the planned growth of output and the reduction of production consumption with an accelerated inventory turnover. There is no denying that considerable reserves can still be tapped in this field. That is why inventory limits are set for all positions in the working capital plan. In principle, all positions in the working capital plan--material supplies, unfinished products and finished products--are to be covered by supply standards. Every year, days when guidelines are to be formulated are scheduled in a differentiated manner.

The financing of the working capital in the combines and enterprises comes out of their own funds as set up by the plan and from credits. The measures decided on provide for credits, interests and production fund dues to be used more for improving plan controls over inventories and stocks. When credits are granted for surplus stocks, the interest rate goes up. For certain surplus stocks, commodities produced without contract or below qualitative standards, e.g., credits are no longer granted.

On the basis of this decree on the improvement of economic accounting, the various special regulations in force thus far are revised or supplemented, e.g. the finance guideline for the VEB economy, the credit decree, the decree on forming a uniform output, the decree on planning the financing of working capital, the decree on production fund dues, the decree on the planning, formation and use of performance funds in the VEB economy, and others.

Improving economic accounting based on the plan is an important step toward further strengthening democratic centralism. Accordingly, the implementation of the measures explained makes higher demands on central state planning as well as on the combines' and enterprises' economic activity under their own responsibility.

As far as the work in the central state organs is concerned, these higher demands relate mainly to enforcing the unity of material and financial planning, the enforcing of performance and efficiency comparisons, and the elevation of the place value of economic efficiency computations as a basis for material plan decisions. We need more sophisticated cost planning, control and accounting and a further development and extension of the standards on the central level on which they are based. That is tied up with having financial and banking institutions bring a stronger influence to bear on efficient economic management, with a more effective exercise of control by our currency, with improving information derived from economic accounting and statistics, and with their extensive use in improving the cost/benefit ratio.

In the combines and enterprises the higher demands mean thinking more in cost/benefit terms for resolutely implementing the party's economic strategy on every job. For that purpose, we should rapidly generalize the experiences of combines and enterprises that have in their own plants applied the objectives for cost reduction and efficiency improvements by the various methods in socialist industrial management, and we should make them a part of the collectives' socialist emulation. Improving industrial cost accounting in terms of types, positions and bearers of costs, together with improving our working with cost conceptions, is a task that has to be solved in each enterprise and combine if the 3-percent prime cost reduction annually, called for in the law on the 1981-1985 Five-Year Plan, is to be met and surpassed. Aiming the collectives' thoughts and actions at our economic goals--therein lies the basic idea of the measures taken.

Text of Decree

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I
No 3, 5 Feb 82 pp 85-92

[Official text of "Decree of 28 January 1982 on the Further Improvement of Economic Accounting on the Basis of the Plan," signed for the Council of Ministers by Werner Krolkowski, first deputy chairman, GDR Council of Ministers; and for the chairman of the State Planning Commission, by Heinz Klopfer, member, Council of Ministers, and state secretary in the State Planning Commission]

[Text] The implementation of the economic strategy for the 1980's, as issued by the 10th SED Congress, requires a further improvement of economic accounting. What mainly matters is to reduce production consumption, and that means the prime costs, enhance the economic effectiveness of science and technology, and of investments, advance the effectiveness of foreign economy activity, and improve the economy in our inventories.

The measures for improving economic accounting on the basis of the economic plan are to be aimed at making more use of economic categories such as costs, prices, credit and interests, and raising the responsibility of the combines and enterprises for producing the funds and using them efficiently and economically.

Section I: Range of Application

Article 1

(1) This decree applies to

- combines and enterprises operating in accordance with economic accounting,
- the central and local state organs, and
- the banks.

(2) In accordance with it, this decree applies to the economic management organs and institutions operating in accordance with economic accounting. In enterprises that do not belong to combines, the duties set down in this decree for the general directors of combines are to be assumed by the managers of their executive organs.

(3) Requisite branch-specific regulations on the basis of this decree have to be issued by the ministers for the combines and enterprises in their respective spheres of responsibility in concurrence with the chairman of the State Planning Commission, the Minister for Finance and the head of the State Central Administration for Statistics.

Section II: Requirements for Cost Planning, Accounting, Control and Analysis

Article 2

Cost reduction, the centerpiece of economic accounting, has to be resolutely organized on the basis of the plan on all economic levels. Through uniform planning of commodity production and prime costs, the combines and enterprises have to determine the cost/benefit ratio for decisive positions with the aim of decidedly reducing public expenditures. Cost reduction is to be held to be the criterion for the economic contribution by the combines and enterprises to improving the cost/benefit ratio.

Article 3

(1) On the basis of the economic plan, the ministers and the chairmen of bezirk councils have to assign to the combines, and the general directors of the combines, to the enterprises, state tasks and plan requirements for

- costs per 100-Mark commodity production or construction industry production,*
- base material costs per 100-Mark commodity production or construction industry production,**and
- managerial and administrative costs.

The chairmen of the other local councils have to proceed accordingly with respect to the combines and enterprises under their responsibility. With the five-year plan, the base material costs per 100-Mark commodity production or construction industry production have to be assigned a prime cost reduction in percentages, and the managerial and administrative costs, in terms of years.

(2) The general directors of the combines, for purposefully tapping efficiency reserves in the enterprises, have to assign and set down other state tasks and plan requirements--in addition to the ones referred to under (1)--particularly for reducing costs in

- energy and fuels;
- rejects, make-up work and repairs under warranty;
- shipping costs;
- advertising; and
- other ancillary supplies.

(3) The costs levied per 100-Mark commodity production and the base material costs per 100-Mark commodity production, with the economic plan, are to be applied throughout, down to the enterprises, as a binding and unalterable criterion for staying within costs and thus for attaining the planned cost reduction. In the combines and enterprises, the set of planning costs in planned production has to be based on the accounting given for the plan. Changes in the production assortments no longer automatically modify planned costs per 100-Mark commodity production. The general directors of the combines and the directors of the enterprises have to ensure expert planning of assortments and the bearers of costs. Through greater economic efficiency in science and technology, enhanced refining of energy sources, raw materials and working materials, and the application of advanced technologies, costs have to be reduced in conformity with state requirements, cost planning of 100-Mark per commodity production has to stay in, or below, its limits, and assortments proper as to needs have to be produced.

(3) Costs per 100-Mark commodity production and base material costs per 100-Mark commodity production have to be allocated on a quarterly basis by the ministers and

*This parameter applies to the centrally and locally managed industry and construction industry (not including industrial plant construction).

**Applied in industry and construction (centrally and locally managed) but not in industrial plant construction. To industrial plant construction there applies the parameter of production consumption per 100-Mark commodity production in industrial plant construction. For the Ministry for Coal & Energy we have branch-specific regulations. For the Ministry for Transport material costs per 100-Mark commodity production are to be planned.

the general directors of the combines, or the chairmen of the bezirk councils, through quarterly or monthly allocations of selected state plan requirements for the combines and enterprises. Doing so, they have to stay within the allowances set for the whole year.

Article 4

(1) The cost and finance plans of the combines and enterprises have to be prepared on the basis of, and in full conformity with, the state requirements for standards, norms, proportions, contingents and limits for reducing consumption and the rational use of raw materials, energy, fuels and propellants, material and working materials. The chief accountants in the enterprises have to prove and control that conformity.

(2) When production consumption is reduced in that funds in material and energy by means of socialist emulation are returned, it counts as prime cost reduction achieved by the combines and enterprises themselves. When state standards, norms, proportions, contingents and limits change, the general directors of the combines and the directors of the enterprises have to block the costs planned for them.

Article 5

(1) The general directors of the combines and the directors of the enterprises have to use and further improve the cost plans as an important instrument of their management activity. In the cost plans of the combines and enterprises, costs, in principle, have to be allocated in terms of types, positions and bearers or groups of bearers. The general directors of the combines have to decide for which main products and important commodity groups costs have to be planned separately and are not to be included in the groups of cost bearers.

(2) The effects of changes in industrial prices on the cost trend, on the yield and the profit and the working capital and its financing must be separately shown when the combines and enterprises submit their draft plan and prepare their annual plan, presented for endorsement to the superior organs, by combine enterprises, to their combine.

(3) On the basis of the economic plan, the cost plans of the combines and enterprises must be made specific in terms of areas of responsibility and main products by no later than 15 February of the planning year.

Article 6

Through forming and using a proficiency fund, the reduction in production consumption and costs must get a stronger incentive. Thus

--the proportion of material savings must be raised with the idea of turning material saving into the most important source of the proficiency fund,

--more value must be attached to saving imported materials in forming the proficiency fund, and

--the return of contingents and the reduction in energy consumption must receive extra recognition.

The means of the proficiency fund are to be used on a priority basis for measures in socialist rationalization and the improvement of the working people's working and living conditions on the basis of well-balanced material funds.

Article 7

(1) Cost conceptions have to be worked out in all combines for the five-year plan period. In it, conformity has to be ensured with other conceptions, particularly on refining, the use of industrial robots and the application of microelectronics.

(2) Through the cost conceptions it has to be ensured that the five-year plan goals are achieved for reducing production consumption and costs mainly through scientific-technical measures. The cost conceptions must show the systematic prime cost reduction for the five-year plan, subdivided in terms of years, in accordance with the following major considerations:

- enhanced refining of raw materials and reducing energy consumption;
- substitution of raw materials in connection with cutting back imports;
- a better use of the social labor capacity;
- improved utilization of shift work;
- reducing costs for rejects, make-up work and repairs under warranty and economically significant outlays like costs for maintenance and repair, general overhaul, transport costs and sales costs; and
- reducing the outlays for the export production, so as to make export goods more profitable.

Cost conceptions must be brought up-to-date annually by the combines.

(3) By draft plans for the economic plan, the combines must demonstrate the extent to which measures in scientific-technical progress and investments achieve the planned prime cost reduction. To that end, the planning of prime costs must be improved in a target-directed manner, in terms of qualitative factors affecting it.

Article 8

(1) When costs are exceeded, the ministers or general directors of the combines have to prepare cost reports within 4 weeks after the excess was found and rapidly reestablish the order according to plan. That applies accordingly to the chairmen of the local councils who are in charge of combines or enterprises.

(2) The cost reports of the enterprise directors before the general directors of the combines must be attended by

- the economic directors and chief accountants of the enterprise or combine; and
- the representative of the bank concerned.

The cost reports by the general directors of the combines before the minister must be attended by

- the economic director and chief accountant of the combine; and
- a competent representative each of the chairman of the State Planning Commission, the Minister of Finance, and the president of the State Bank.

(3) To substantiate their cost reports, the enterprises and combines must present:
--an analysis explaining why the costs were exceeded and
--measures and suggestions for reestablishing order according to plan in cost trends.

(4) When costs were exceeded, the director of the next higher organ, in combine enterprises, the general director of the combine, has to block proportionately the following funds or means to be used on their own responsibility:

- (a) the proficiency funds,
- (b) means of the investment funds and other financial funds not used directly for fulfilling scientific-technical tasks or for production, supply or export tasks, e.g. for furnishing offices,
- (c) expenses for representational purposes and free gifts in advertising; and for the combines, furthermore,
- (d) the general director's disposable fund and
- (e) the reserve fund.

Payments from the blocked funds or perquisites may be released only by the head of the next higher organ, in combine enterprises, by the general director of the combine, after cost reports are rendered.

(5) Cost reports are required on a monthly basis until the order according to plan is reestablished.

Article 9

(1) To enhance cost discipline and make economic accounting effective, costs detailed in the appendix are not to be planned (unplanned costs).

(2) The general directors of the combines and the directors of the enterprises have to lay down binding rules for the personal accountability of the technical directors and other executive associates by which they must stay within costs in their areas of responsibility. Proceeding from the well tested methods in socialist industrial management, unplanned costs must be documented in accordance with the principle that induces them. The material accountability is set down in the Labor Code.

Article 10

Intra-enterprise economic accounting is to be made specific in such a way that, on the basis of the plan, emulation management, the budget and the bonus system are more effectively combined with one another in the collectives. For that, the general directors of combines and directors of enterprises, through analyzing and generalizing progressive experiences, have to set down concrete rules for their areas of responsibility. They must see to it that those collectives and working people that are making a great contribution to cost reduction get benefits from material incentives.

Article 11

(1) The general directors of combines and directors of enterprises must prepare meaningful cost analyses at least every quarter. They must contain

- accurate cost trend assessments including comparisons with the plan quotas assigned and with previous years, and the causes for exceeding or staying below planned costs;
- indications for reserves for further cost reductions; and
- analyses of the influence of the cost trend on efficiency.

Concrete decisions on improving the cost/benefit ratio have to be derived from the cost analyses.

(2) The general directors of the combines, the competent ministers, and the chairmen of the local councils, in exercising a greater influence on reducing production consumption and costs, must conduct and analyze cost comparisons within the scope of performance comparisons among the enterprises or combines. Regulations have to be set down to surmount unjustified level differences.

Article 12

(1) The general directors of the combines and the directors of the enterprises have to make sure that the computations for the types, positions and bearers of costs can be used as an effective managerial and control instrument in the cost reduction efforts.

(2) In computing the types of costs one has to make sure that all outlays are accounted for, independent of their financing, in accordance with how they arise within the reproduction process, and are settled accordingly, and rapidly. Through computing the types of costs the prerequisites are to be laid for a precise and position-oriented control over the development of production consumption and for staying within allocated limits and contingents. This is to be used more, in connection with material accounting, for staying within or dropping below the required standards, norms, proportions, contingents and limits. By an analysis of plan fulfillment and of the development of the various types of costs and their connection with the development of production or performance, all enterprises, plants, departments, sections and brigades must receive assignments for the rationalization of production and a better use of the available production capacities, aiming at the tapping of reserves for cost reductions and efficiency improvements.

(3) Through computing cost positions, a precise and rapid cost accounting is to be made in terms of departments and sections. To mobilize the working people for ensuring throughout the reduction of costs which they themselves can affect, the cost positions must conform with delineated areas of responsibility. Cost position computation is to create important preconditions for a well balanced accounting for socialist emulation. On this basis, public emulation management and the budgetary work must be refined and a close link is to be established between performance trends and cost trends, so as to interest all working people in improving the cost/benefit ratio.

(4) Computation of the bearers of costs in the enterprises has to be structured in such a way that the general directors of the combines are in the position to make short-range management decisions, if necessary, to provide the main products with the efficiency development planned for them. The results of the cost-bearer computations must be used in such a way that the enterprises, after research data were

carried into production, rapidly meet the cost allocations set down in the draft commitments for new products. For ensuring the proposed reduction of administrative expenses one must see to it that for the main products and important export commodities a product-specific and concrete cost-bearer computation is carried out. At least once a year there has to be a recomputation for these products.

Section III: Enhanced Economic Effects from Scientific-Technical Progress

Article 13

(1) The general directors of the combines must see to it that the scientific-technical potential is used in a concentrated manner for attaining the aims, derived from economic requirements, in performance and efficiency improvement. The efficiency criteria, stipulated in the five-year plan, are to be substantiated by economic objectives in the draft commitments for R&D topics. In particular they are the return rate, production effectiveness, the effect on forming new values, exportability, productibility and the reduction in base material costs as well as the central leads for scientific-technical work on saving working hours, material and energy and on enhancing the quality of products. Draft commitments once ratified become the basis for the planning and financing of scientific-technical projects and for accounting for, evaluating and stimulating the results achieved in combines and enterprises. To all other science and technology tasks the aforementioned duties apply accordingly.

(2) The general directors of the combines and the directors of the enterprises have to see to it that the economic benefit, as stipulated in the draft commitments, requirement comparisons and basic investment decisions, is included and accounted for to its full measure in the year that the combine or enterprise plan reaches production effectiveness in it. For establishing economic intrinsic effects from measures in scientific-technical progress, the relevant legal provisions are applicable.

(3) The science and technology funds are to be formed at the expense of prime costs at the level of the means set down through state planning requirements.

(4) For the R&D projects to be performed, the general directors of the combines have to prepare and apply time frame standards for working on and realizing scientific-technical tasks and performances. The normal maximum is 2 years from the ratification of the draft commitments to the termination of the projects.

Article 14

(1) The ministers, the chairmen of the local councils, the general directors of the combines and the directors of the enterprises have to make sure that the financing of R&D tasks and investment projects based on the plan is, without fail, task or project-related.

(2) Prerequisite to releasing funds from the state budget for tasks in the science and technology state plan by the ministers, and for investment projects by the ministers and the chairmen of the local councils, are ratified draft commitments, comparable requirements and decisions of principle. It must be made certain that

the efficiency criteria and economic requirements stipulated by the state are all attained. The financing of the early stage of scientific-technical tasks is permissible only on the basis of proven intermediate results in accordance with the draft commitment objectives for any subsequent phase of the work. To that the general directors of the combines and the directors of the enterprises have to conform when they release funds from the science and technology fund or from funds they have produced themselves for investments. The same principles apply to the granting of credits for financing investment projects and R&D tasks by the banks.

Article 15

(1) The general directors of the combines and the directors of the enterprises must apply authoritatively in their areas of responsibility and substantiate by project-related parameters the parameters and standards set down in the economic plan for rating basic assets and investment effectiveness, especially the basic assets quota based on net output, the investment quota, the manpower development and the reduction of incomplete investments. On those parameters must be based the elaboration and confirmation of decisions of principle with the aim --to wrest from every Mark invested a higher performance and efficiency growth, --to cut back more jobs through investments than create new ones, and --to reduce decisively the time frames needed for completing the projects and the construction proportion in investments, as stipulated by the plan.

(2) The general directors of the combines and the directors of the enterprises have to keep control of the production, performance and efficiency objectives as set down in the decisions of principle, and of the expenditures and deadlines in achieving the technical and economic parameters as ratified in the decisions of principle. There they have to account for the growth in commodity production and net production resulting directly from investments, in particular, and for the growth of export and profit as well as for the reduction of prime costs and the enhanced effectiveness of the basic assets. Arrears in obtaining the goals as stipulated in the decision of principle have to be explained by the enterprises to the general director of the combine, which has to be combined with suggestions on how to obtain the objective and reestablish order according to plan. The general director then must make the necessary decisions.

(3) When investment projects are finished, the ratified parameters of the decision of principle have to be accounted for. That computation, a document of cost accounting and statistics, then becomes part of the annual profit-and-loss statements, which the enterprise or general directors must include in their status reports to their next higher managers.

Article 16

(1) The State Bank of the GDR and State Finance Audit have to supervise the economic objectives of selected R&D tasks, including their carry-over into production, on the basis of draft commitments and decisions of principle. They have the right, as part of their supervision, to ask for measures implementing economic requirements for the efficiency and proper use of draft commitments.

(2) The State Bank of the GDR, the State Balance Inspectorate and State Finance Audit keep control on keeping investments exclusively within the framework of the planned material funds for equipment and construction.

(3) When it is found that research means and investments are used inefficiently or the state and plan discipline is violated, the bank has the right, until a decision is made by the chief of the next higher organ, which would be the general directors of combines, for the combines, to block financial means entirely or in part. When access to budgetary means is barred, completely or in part, the relevant decisions have to be made by the competent ministers in concurrence with the Minister for Science and Technology.

Article 17

(1) In the case of completing production ahead of schedule or concentratedly or of an accelerated carry-over into production of planned R&D tasks with a high economic effectiveness, combines and enterprises may be granted preferential credits.

(2) Extra credits may be allocated for rapid reaction to export market needs, for satisfying domestic demands and for a speed-up in reducing production consumption.

(3) Low interest credits may be granted for rationalization measures within the framework of the planned material investment volume leading to the release of manpower through a cutback in jobs, to a reduction of energy and production consumption, cutbacks in imports and the extraction and utilization of secondary raw materials.

Article 18

Combines and enterprises have to pay production fund dues as soon as investment projects go into effect, in line with decisions of principle taken. When there is a delay in this, an additional rate of the production fund dues of 6 percent has to be paid for the period between the planned and the actual start of operations, of the total value of the investment project or partial project, which is not plannable.

Article 19

The general directors of the combines and the directors of the enterprises have to ensure a high efficiency and intensive use of the basic assets available, on the basis of the centrally allocated basic assets quota, the normal working life and the amortization allowances resulting therefrom. Through modernization and careful handling, maintenance and preventive repairs, the efficiency and working life of available basic assets have to be improved. To that end, general repairs and rationalization investments, including the requisite efficiency development of their own construction of means of rationalization and their own construction departments, are to be planned in a complex fashion and managed uniformly in the combines and enterprises.

Section IV: Financial Obligations to the State Budget, Forming Own Funds and Strengthening the Influence of Credit and Interests

Article 20

(1) The combines and enterprises get state plan requirements for producing the net income. In this way the profit planned by the state expresses the contribution the combines and enterprises are making to increasing the national income. The combines and enterprises must absolutely meet their financial obligations to the state budget, even when the planned net income is not produced. If the profit produced is not sufficient, the combines and enterprises must use their own funds for it. The bank has to show which funds of their own are being used for it. The payment of wages and bonuses to the working people according to their performance is to be secured in accordance with regulations in effect.

(2) If they have financial needs that, because of reduced profits, cannot be supplied out of their own funds, combines and enterprises may apply for bank credits. The application has to point out the measures through which planning order is expected to be reestablished. If the bank refuses the credit, the head of the next higher organ, which would in combine enterprises be the general director of the combine, must prepare an accounting. In the outcome of the accounting, decisions have to be made on the reestablishing of the planning order and the financing. Such decisions have to be made jointly with the competent finance and bank organs, the State Planning Commission or the bezirk and kreis planning commissions.

(3) Along with the annual profit-and-loss statements of combines and enterprises which due to less profit could put less money into their own funds than planned or could pay only smaller dues from their funds, the following has eventually to be decided or prepared for decision:

- the use of finances from their own funds;
- the total amounts put into their own funds;
- the consequences from that for paying net profit dues to the state; and
- the redemption of extra credits granted because of a temporary drop in profits.

(4) Decisions as to (3) are up to

- the competent minister in concurrence with the chairman of the State Planning Commission, the Minister of Finance and the president of the State Bank of the GDR, for centrally managed combines and enterprises; and
- the chairman of the bezirk council in concurrence with the manager of the competent branch of the bank, for locally managed combines and enterprises.

For combines and enterprises of the bezirk-managed industry, the decision is up to the Minister for the Bezirk-Managed Industry and the Food Industry in concurrence with the chairman of the State Planning Commission, the Minister for Finance and the president of the State Bank of the GDR as well as the chairman of the competent bezirk council.

(5) The Minister of Finance has to inform the Council of Ministers or the managers of the finance departments of the local councils, the competent council, on the decisions made in the annual profit-and-loss statement.

Article 21

Combines and enterprises, in principle, have to put equal amounts each month into their own funds, in conformity with the regulations in the finance guidelines. Derived from their profits, they have to be deposited from the operations capital account to appropriate special bank accounts when due. Except for the specifications under Article 20 (1), funds on these special bank accounts are to be used exclusively for their planned disposition. The depositing into finance funds, according to plan, has to be correlated with the plan on cash on hand.

Article 22

(1) For ensuring payments, when due, for deliveries and services, proper as to contract, to combines and enterprises, the general directors of the combines and the directors of the enterprises have to keep abreast of the balance of payments, call for analyses of payment difficulties, and set down measures to ensure a disciplined payment policy.

(2) For the combines and enterprises to become more involved in satisfying claims when due, finance charges for overdue payments at an annual rate of 18 percent are assessed in conformity with legal regulations.

Article 23

(1) Combines and enterprises which are apt to meet the basic parameters of their efficiency rating on a continuing basis may, to cover temporary fluctuations in their financial needs, exceed their regular working capital credits, after having made arrangements with the bank, under the condition that on the average they stay within their regular credit limits.

(2) To encourage the overfulfillment of planned performance and efficiency goals, the bank grants combines and enterprises extra credits on a preferential basis, especially for working capital temporarily exceeding the plan for

- an additional production and the use of industrial robots and other means of rationalization,
- an additional production of spare parts, and
- a rational utilization of shipping space.

(3) The bank has the right to grant combines and enterprises other credits at higher interest rates for

- temporary surplus, provided such surplus is used for the production and distribution responsive to supply and demand and measures are in evidence, and are implemented, to reduce and eliminate the surplus and causes for more surplus. The interest rate for such credits is 8 percent at most, somewhat depending on how long it takes to do away with the surplus;
- overdue claims with higher finance charges, provided there were no deficiencies on the supply-side; and
- paying for contractually satisfactory shipments and services, specific to this purpose, when enterprises become temporarily insolvent due to arrears in their plans. Such credits run for no more than 90 days and carry an annual interest rate of 12 percent. The bank combines the granting of such credits with concrete demands

for reestablishing conditions that are according to plan and may make them dependent on a guarantee from the general director of the combine.

(4) The bank grants no credits to finance excessive expenditures and losses or an output that might invalidate sales. That also applies to noncontract output, unless other central decisions were taken.

Article 24

(1) Combines and enterprises have to refine their planning of working capital with the idea that that production growth and the reduction of production consumption will make for a faster turnover of inventories. For that purpose, the general directors of the combines have to assign the enterprises requirements on expediting the turnover of their inventories and on inventory limits for all the positions in the working capital plan.

(2) Material supplies and inventories of incomplete products and finished products in the enterprises have to be standardized. Inventory standards have to be reviewed every year; the enterprise directors have to revise them in accordance with their most up-to-date knowledge on how to speed up the turnover of material goods. Such days for deciding on economically important inventory positions must be authorized by the general directors of the combines.

(3) The bank has to see to it that the enterprises comply with the assigned planning parameters for speeding up their inventory turnover.

(4) For surplus material supplies and incomplete products and finished products, an extra 6 percent rate in production fund dues has to be paid, which is not plannable.

Section V: Tasks in the Field of Industrial Prices

Article 25

The general directors of the combines and the directors of the enterprises have to exercise the responsibility with which they are charged in enforcing state policy in the field of industrial prices in that they effectively support

- the acceleration of scientific-technical progress, its maximum economic utilization and the effort for a higher grade of products,
- a significant increase in labor productivity,
- a far better utilization of raw materials and fuels,
- intensively expanded reproduction including extensive socialist rationalization,
- the reduction of production consumption and of prime costs, and
- production growth based on efficiency improvements.

Article 26

(1) Proceeding from their own analyses of the effectiveness of industrial prices within the scope of economic accounting, the general directors of the combines have the right to make recommendations for scheduled changes of industrial prices to the competent minister and the chief of the Pricing Office. There they must focus on the targets for reducing costs, strengthening intensification, and encouraging production growth and labor efficiency.

(2) Within the scope of the annual price changes for industrial goods, price from which excessive profit accrues must be reduced on schedule. Recommendations for that from the general directors of the combines and the industrial ministers are to be included in the recommendations as to Article 1. The sales prices for products remain unchanged. The difference between the reduced industrial prices as per schedule and the unchanged sales prices is to be turned over, as a product-specific revenue, to the state budget.

(3) The general directors of the combines and the directors of the enterprises have to see to it that the industrial prices from scheduled price changes are effectively used, within the scope of economic accounting, by the working people in socialist emulation for reducing costs.

Article 27

(1) In preparing recommendations for cost and price requirements and for industrial prices for new and more advanced products, in terms of the cost/benefit ratio, and in accordance with legal regulations, the general directors of the combines, in particular, have

--to take more into account international scientific-technical standards to be expected,

--to give greater weight to the parameters that are decisive for the products' world marketability such as their input/output ratio, their specific energy consumption, or their specific space and area requirements, and

--to check by strict criteria the costs projected by the enterprises and ensure the standards, norms, limits and parameters on which the cost and finance plans of the combines and enterprises are based.

(2) Managers responsible for ratifying the draft commitments have to ensure that with this ratification upper limits for prime costs and sales prices are set which take account of the demanding economic and scientific-technical targets for new and further developed products. The cost and price requirements derived from the upper limits must not be exceeded when industrial prices are confirmed.

(3) The general directors of the combines, in determining cost and price requirements and industrial prices, have to take care of the tasks as to (1) and (2).

Article 28

The general directors of the combines and the directors of the enterprises, to enforce high efficiency, have to use the surcharges, as set down in legal regulations, for the production of

--commodities produced with modest material efforts and highly refined, and

--commodities in excellent quality, good design, and highly profitable as exports.

These surcharges, in principle, apply to both producers and buyers uniformly.

Article 29

The head of the Pricing Office has to establish price discounts in dealing with combines and enterprises the products of which are insufficiently refined, or technically outdated, so that their exportability goes down, use too much energy or show a poor input/output ratio.

Section VI: Higher Combine and Enterprise Responsibility in Foreign Economy Activity

Article 30

The export capacity of the combines and enterprises has to be increased to solve our demanding foreign economy tasks; imports have to be handled most carefully while we noticeably improve the effectiveness of export and import. To that end we must in particular award uniform industrial results and a recognized high exportability of our products by extra bonuses, improving them resolutely to that the combines and enterprises are thereby effectively assisted in their assuming their greater responsibility to the fulfillment of our foreign economy tasks. The ministers and general directors of the combines have to make sure that export reports by the production enterprises and the foreign trade reports by the foreign trade enterprises become uniform in terms of legal regulations in effect.

Article 31

(1) Above and beyond the production and deliveries of export goods, the general directors of the combines bear the responsibility for ensuring systematic foreign exchange income from export to the nonsocialist economic region. This responsibility also embraces securing scheduled foreign exchange revenue from the export of other combines and enterprises which are realized via the foreign trade enterprises or foreign trade areas of the foreign trade enterprises that are parts of the combine. Combines that contain a foreign trade enterprise or a foreign trade area in a foreign trade enterprise, and other centrally designated combines, have to be given, as of 1982, state plan parameters for foreign exchange revenue from export to the nonsocialist economic region.

(2) The Foreign Trade Ministry is responsible for preparing the state plan parameters for foreign exchange revenue, as per (1), and has to ensure a rigid central management of all foreign exchange economy processes for export and import.

Article 32

(1) The combines have to produce in summary form, as their unified total industrial achievement,

--their income from domestic products and other turnover,

--their export income, and

--the income of the foreign trade enterprises that are part of the combine.

(2) The foreign trade enterprises that are part of a combine have to submit, out of their total income, profits not due to their own activities and net profits, at least in the planned magnitude, via the Foreign Trade Ministry, to the state budget.

(3) The Foreign Trade Ministry, by centrally setting down trade margin clauses and by annually turning over the net profits, has to ensure uniform economic criteria for the development of circulation costs in the foreign trade enterprises.

(4) The general directors of the combines have to use export profits for making up for export losses incurred by some enterprises.

Article 33

(1) The bank's approval is required for import licenses and for signing contracts on the import of machines and equipment--except plant imports, completion imports and imports for production consumption. This is done upon the buyer's application, after the economic need for the import was examined and on the basis of the import certification by way of signed import credit contracts or the financing authorization given in GDR currency.

(2) The buyer has to present to the bank documentation affirming the planned assembly and operations deadlines, the confirmed plan-effective intrinsic values and other agreed credit conditions. In case they are infringed, the buyer has to prove to the State Bank of the GDR that he is making arrangements to reestablish order according to plan. When a credit contract is violated, especially when imported machines or equipment are not put into operation according to plan, the bank can raise the import credit interest to as much as 8 percent. Interests exceeding the basic rate are not plannable.

Article 34

Foreign exchange accruals to combine and enterprise funds are to be curtailed when the state plan requirement for export lucrativeness in the nonsocialist economic region is not met.

Section VII: Greater Responsibilities for the Chief Bookkeeper

Article 35

Based on the chief bookkeeper decree (7 June 1979, GBL, Part I No 18, p 156), the work of the chief bookkeepers is to be expanded in the following direction:

- Controls the economic objectives in the R&D draft commitments and in the investment decisions of principle in terms of their conforming with the centrally assigned efficiency criteria for improving the scientific-technical performance of the combines and the effectiveness of investments,
- keeps control over having financial means for R&D used exclusively on the basis of ratified draft commitments,
- controls the full conformity between cost plans and planned material funds,
- fully enforces the measures for refining enterprise cost accounting and the analysis of its results for management decision proposals to reduce expenses and prevent losses,
- import-export efficiency analysis and supervision, and
- secures priority payments to the state budget and prepares measures for maintaining a high state and plan discipline in the formation and utilization of financial funds, in inventories and supplies, and in meeting contracted obligations.

Section VIII: Final Provisions

Article 36

(1) In all centrally managed enterprises of industry and construction which plan, and account for, at a reduced scale, the general directors of the combines must gradually enforce cost planning and accounting in terms of cost positions and cost

bearers with respect to the main products of the enterprise. Through labor rationalization it is to be ensured in this that the monthly plan requirements handed out to the combines for reducing managerial and administrative costs are met.

(2) The specifications for cost planning and cost accounting in the locally managed combines and enterprises which are producing, and accounting for, at a reduced scale are the responsibility of the competent ministers advised by the chairmen of the bezirk councils.

Article 37

This decree goes into effect when promulgated.
Berlin, 28 January 1982.

Appendix to Above Decree: Unplannable Costs

Costs induced by deficient scientific-technical work (Account 398)
Amortization for shut down basic assets (Account 3002), unless legal regulations or central decisions have made other arrangements
Remaining balances for basic assets (Account 304), unless central decisions have made other arrangements
Costs for making unauthorized use of funds for investments (Account 3901)
Surplus costs due to faulty investment activity (Account 3900)
Lost investment efforts in terms of Article 5 of the decree of 10 November 1971 on settling investment funding and dealing with surplus and starting costs--GBL, Part II No 78 p 690--(Account 3902)
Costs for abandoned investments according to legal regulations (Account 3992)
~~Increased dues~~ for the use of the soil (Account 3990)
Economic penalties (Account 3913)
Penalties for infringing standards, contingents and limits as per state requirements (Account 3918)
Contract penalties and damages within the GDR (Account 3910)
Contract penalties and damages outside the GDR (Account 3911)
Monetary penalties and stallage (Account 3912)
Reject, make-up work and repairs under warranty to the extent that they exceed branch-specific limitations (Account 408)
Warranty work - export (Account 6471)
Sewerage, dusting and gas exhaust money (Account 4915)
Unsatisfied claims (Account 392)
Service charges for delays (Account 385)
Extra interests for credits and interests according to plan in case of credit extensions due to temporary irregularities including credits for planned but not yet produced means under own production (basic interest rate plus extra interest) and penalty interest (from Account 382)
Devaluations (Account 393) (in domestic consumer goods trade in accordance with branch-specific conditions)
Inventory minuses (Account 394) (in domestic consumer goods trade in accordance with branch-specific conditions)
Price hikes not plannable in terms of the provisions applying to them.

5885

CSO: 2300/152

CSIKOS-NAGY DESCRIBES DEVELOPMENT OF PRICE LEVEL

Budapest NEPSZABADSAG in Hungarian 10 Feb 82 p 10

[Article by Bela Csikos-Nagy, chairman, National Material and Price Office:
"On the Development of the Price Level"]

[Text] The possibilities and limitations of government price controls, and closely connected with them, the controllability of price levels are among the most widely debated questions of our economic policy. They were first discussed in 1975, by the Economic Panel of the MSZMP under the theme, "The Domestic Problems Connected with the Fluctuations in the Purchasing Power of Our Currency, Especially the Problems of Changing World Market Prices," and just recently they were examined again on the basis of a document entitled, "Factors Affecting Price Increases During the Periods of the Fifth and the Sixth Five-Year Plans."

The 1975 debate occurred under the shock-effect of the first world market oil-price explosion, put into effect in the fall of 1973 by OPEC. At that time, there were still many who believed that it was possible to ward off and offset future increases in the world market price of petroleum, and that they should be viewed merely as temporary phenomena. In the course of that debate considerable attention was devoted to the developments which had occurred during the balanced--and even favorable--foreign market conditions of the preceding 10-15 years. The prevailing notion of that time was that the only phenomenon that can accompany economic growth under our conditions is a moderate and "tightly controlled" increase in prices. However, it was clear already back then that the inflationary pressures from the world market would continue to increase, that they would be lasting, and furthermore, that they would manifest themselves even in the price calculations of the CEMA cooperation.

The present debate materialized after the second oil-price explosion had been put into effect by OPEC in 1979, and following our 1980 price adjustment under which the domestic value of natural resources was to be based on world market prices. Consequently, the rate of price increases has accelerated, and there have been several signs which seem to indicate that the pressures caused by price-straining forces will not diminish in the forthcoming years either. It is for this reason that it was deemed advisable to carry out a new, comprehensive analysis of the factors which affect price increases, and to examine how much freedom of action we have to regulate the rate of price increases.

Virtually the entire period of socialist construction has been accompanied by price increases. During the past 34 years, the average price level increase in producer and consumer prices has been around 4 to 5 percent annually. The increase in agricultural price levels has been greater, amounting to an annual average of about 7 percent. In agriculture we have also had to solve a historic task. During the 1930's, day-wages had been around 40 percent of the minimum industrial wage. It was only during the early 1970's that agricultural incomes and industrial wages were finally equalized.

Average Annual Price-Level Changes (in percentages)

Period:	Industry	Construction	Agriculture	Consumer price
1947-49	+ 6.9		+15.5	+15.0
1950-52	+12.6	+ 1.5	+ 8.0	+20.4
1953-57	+ 0.6	+ 3.1	+17.8	- 0.8
1958-59	+15.4	+30.5	- 3.5	- 1.0
1960-65	- 1.4	- 1.2	+ 2.9	+ 0.7
1966-68	+ 2.1	+ 4.4	+ 7.1	+ 0.8
1969-78	+ 2.9	+ 3.8	+ 3.5	+ 2.8
1979-81	+ 9.0	+ 3.0	+ 5.7	+ 7.5
Annual average over the 34 year period:	+ 4.0	+ 3.9	+ 6.8	+ 4.4

It was in connection with the 1968 economic reform, that the gradual introduction of value-proportionate consumer prices over a 10 to 15 year period was laid down as a goal to be attained. This was one of the reasons why under the new economic management system price-level increases accelerated and became more consistent compared to their earlier periodicity. The rate of price-level increases, which during the first five or six years following the economic reform had remained consistently around 1 to 2 percent, increased only slightly after the oil-price explosion, but only because, using financial means, we were able to keep import-price increases down. Later, however, our growing losses made it imperative for us to revise our domestic price-ratios and to raise our price level. In 1980, significant steps were taken toward becoming more elastic in our response to world market price developments. As a result, our domestic price system has become more inflation-sensitive. At the same time, during the 1970's, as a result of growing nominal wages, there were steady increases in the population's per capita real income (4.3 percent annually between 1969-1978); in other words, between 1979-1981 we were able to maintain the level of per capita real income and preserve the standard of living that had been attained.

The Factors of Price Increase

The concept of price-level reductions, which even during the early 1950's were based on the economic laws of diminishing goods values, stands against the entire historical trend of price development. Undoubtedly, our society offers increasingly larger volumes of goods, and at the same time the utilizable basic work time is not only not increasing, but is actually decreasing today. And this can only be achieved through a reduction in the volume of social labor

expended for production and through a similar drop in the value of goods. The problem, therefore, is that if prices have to adjust to values, then why is it that prices are not going down. Recently, this question was examined by our best economists. Therefore we can use their findings to help us provide an explanation.

The general tendency of increasing productivity and decreasing goods values does not assert itself in every sphere of the economy. In our age, natural conditions have deteriorated in a number of areas, and as a result, production in these spheres has required not decreasing but increasing expenditures of labor, which has affected social production as a whole. In the extractive branches--in mining and in agriculture--prices are determined by the costs of the marginal producer, that is, of the producer operating under the least favorable conditions. The demand for energy resources and foodstuffs is rapidly growing, hence marginal costs are also continually rising.

These days, of course, oil prices are regulated by political challenges and not by production costs. In the case of the masses of crude oil that can be extracted under favorable natural conditions these costs amount to merely a fraction of the total price. However, as a result of our import dependence, our price conditions in the case of petroleum is regulated not by costs, but by world market prices.

The oil price explosion was a world economic event, which has caused a chain reaction, and which has led to the acceleration of inflation. While before 1973 countries had tended to shift the burden of inflation to domestic consumption, and had hoped to preserve their international competitiveness through stable export prices; since 1973, industrially developed countries showing oil deficits have been "exporting" inflation in order to partly offset their "oil bill." The "spiral" effect of world market inflation, which is also referred to as inflation import, therefore, has intensified. One of the reasons why the revaluation of the forint currency has not been able to completely offset this is the fact that world market price increases have had a much greater impact on the product structure of Hungarian imports than that of our country's exports.

One of the most important accomplishments of technical development has been improved productivity, and through it, a reduction in per unit expenditures. Certain types of technical development, however, cannot be brought into direct relation with productivity. Technical advances (new technologies) also serve developments which bring about changes that manifest themselves not in the quantity of expended labor, but in the specific nature of work and in the welfare of the members of society. In other words, today the success of technical development can no longer be measured merely in terms of economic categories, or be narrowed down to increased productivity, i.e. to savings of labor expenditures.

Furthermore, today we are living in an age when work-wages have lost their earlier elasticity. The possibility of lowering wage levels has virtually disappeared. In fact, the general rate of wage increases has been adjusting to

those sectors which have shown the most rapid growth in their productivity. This is precisely what has led to increases in the relative cost of services, for example, which due to budgetary supports have only been partially felt by consumers.

Economic policy affects the way prices develop. In itself, stimulation of economic growth leads to rising prices. This is especially the case, if--for a shorter or longer period--it results in spending over and beyond the accumulated resources available; and over-demand has been a virtually constant concomitant of socialist economic development. The only favorable change in this regard is the economic policy which we have been pursuing since 1979, for it has placed balance before growth. We must take into consideration, however, that due to changes in world market price relations, increases in the national income during the next few years will be taken away by exports; in other words, real wages cannot be increased. Without about a 5 percent increase in the nominal wages, however, it becomes impossible to provide continuous wage incentives. It follows then, that in harmony with the wage level, consumer prices must be increased by an annual average amount of almost 5 percent.

International Comparison

Among all of the CEMA member states, our country has had the most significant price increases, which even during the 1980's have only been exceeded by the Polish price hikes. The greatest stability in this area has been shown by the Soviet Union and the GDR.

This, however, deserves a few additional comments. Consumer price stability greater than ours can only be maintained by way of increased governmental price supports. In spite of this, the consumer price indexes of most countries do not reflect increases in the free market price of agricultural products, nor do they include small commodity production or, in many cases, even services. Reports of price increases affecting products that are included in the price statistics are also based mainly on the so-called list-price method, under which only those price hikes are considered price increases which pertain to items included in the price list. Since 1968, however, Hungarian consumer price statistics have not been measuring the movement of retail prices; instead, they register price-level changes which affect the entire sphere of consumption, and furthermore, they also take into consideration those price increases which stem from selection-compositions within interchangeable, narrower groups. In addition, we have used price development to insure uninterrupted commodity supplies.

Long-run comparisons with the capitalist countries unequivocally show, that our price-level increases have been among the lowest, although in the past five years we have been among the countries that are in the middle of the list.

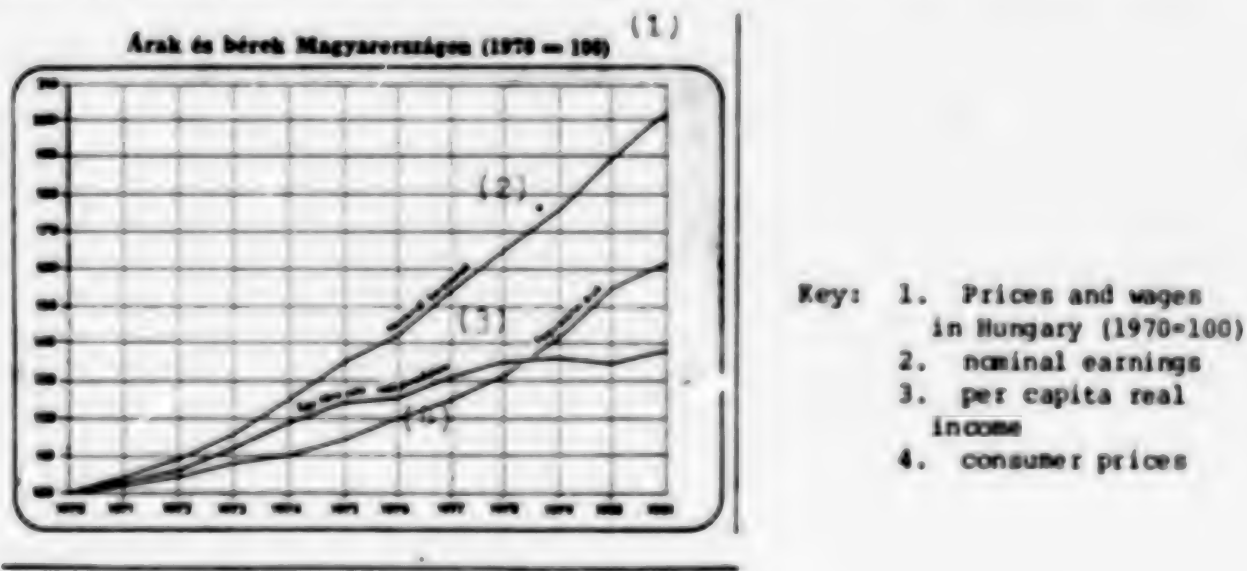
Our Price Policy Under the Sixth Five-Year Plan

The requirements laid down in the Sixth Five-Year Plan concerning our price policy state, that in view of the probable increases in world market prices and of the price-boosting effect of certain domestic factors, we must pursue a price-increase retarding government policy, in other words, that prices must be used increasingly to encourage efficiency and to improve our international competitiveness.

The forecasts are calling for reducing the expected increase in import foreign exchange rates in a way that would limit price-level increases in domestic producer prices to only 20 to 30 percent over 5 years.

The primary responsibility for bringing about a relatively significant slow-down in the increase of world market prices falls on our exchange rate policy. The conditions of our exchange rate policy, however, must be established in the economy itself. Consequently, a whole line of measures have been designed under the Sixth Five-Year Plan to help prices and exchange rates live up to these tasks. The forecasts expect an improvement in production and export commodity structures. Our support policy has become tougher. In industry, the plan expects a reduction in production modernization subsidies. Custom duties have been dropping. The sphere of applicability for competitive pricing has been broadening.

The forces that have been pressing prices upward cannot be completely eliminated. Hence, the primary factor determining our attitude toward inflation should not be whether prices are rising or not; instead, we must pursue an economic policy that will ensure, and with the help of production, will properly support a satisfactory improvement in the standard of living, and in connection with these kinds of alternatives we have to examine, whether an increase in prices can help improve such a situation or not. If yes, their role is justified; if not, they are uncalled for.



9379

CBO: 2507/130

NYERS INTERVIEWED ON ROLE OF INTELLECTUALS, MANAGERS

Budapest FIGYELO in Hungarian 20 Jan 82 p 3

[Interview with Rezső Nyers, advisor to the Institute of Economics, by Miklós Breitner: "Towards Appreciating Creative Intellectuals"]

[Text] According to linguists, the word "intelligencia" as the plurality of educated people, appeared in the Hungarian language for the first time in 1831 in Szecsenyi's WORLD as follows: "... the more genuine, that is, resourceful intelligencia a nation has...." We could continue this thought in terms of today's realities if we used the words "intellectuals" or "spiritual" instead of "intelligencia," and by expanding its scope to the category of the "non physical." Ultimately, the essence remains the same--how the intellectual capacities of the country are utilized.

[Question] Various forms of restrictions can be found in the restrictions of today's Hungarian intellectual life. We are economizing with intellectual energy in the wrong sense. Admitting that a characteristic of intellectual work is that performance is difficult to measure, and that the losses in this area cannot be considered harmful in all cases, how could the restrictions on performance be reduced?

[Answer] The effectiveness of intellectual effort depends upon the organizational effort depends upon the organizational level of society. In Hungary today, the relationships among the various domains of the division of labor are weak and are achieved only through intermediaries. Such is the case, for example, in the rigid separation between scientific research and production. It is similarly true of production and marketing as a whole. Breaking down the barriers between various domains was already begun in 1968 and has achieved some successes. The economic condition of the country today is forcing intellectual work between relatively narrow monetary boundaries. The country is currently spending 3.2 percent of its national income on the development of research, while the current five-year plan is endeavoring to reduce this proportion to 3 percent through decreases of state expenditures. In addition, we may add that through the selection of research projects which are not always appropriate, the continuation of research which brings little result and the creation of too much status the 3.2 percent amount is expended while some research institutes and researchers feel that their level of support is too low. The degree of flexibility in the reprogramming of funds is also too low. This is the panorama of extensive development.

[Question] The latest development can be summarized by stating that the new small and medium sized ventures are attracting the intellectuals away from even the research and development bases which are still relatively well supported.

[Answer] The good and the bad in this process do not seem equal to me. I hope that ultimately the concentration of a portion of the intellectual capacities into smaller, more agile organizations will be beneficial to even the large industrial and research organizations. Indirectly, the large organizations will now utilize the intellectual capacities to their advantage. This they were not able to do when they had them because they could not create the appropriate incentives due to the existing wage system, although the possibilities were theoretically there. In these organizations the outstanding scientist adjusted himself to the average performance level because he was so constrained by his income. If, however, this group of researchers stayed where they were, presumably they would not, in the near future, receive sufficient incentives to turn their capacities to work which is useful to society. If researchers were to receive positive opportunities for self realization in the smaller organizations, then we should not appraise this phenomenon negatively at all. In this case, our intellectual capacities will not be occupied with small scale, partial, supplementary tasks.

[Question] If we accept and follow your train of thought and, in addition, compare it with international observations, we can indeed discover that in many cases research results of great significance originate from small scale laboratories. The successes of electronics and biotechnology are proof of this. In comparing the foreign and domestic situations, however, it becomes apparent that the capital resource supply for endeavors with these kinds of research goals--through bank credit or possibly issues of shares--has not been resolved in Hungary.

[Answer] While it is true that today the institutional system for its acceptance does not yet exist, we have recently taken the first steps with small enterprises. Their role in industrial development and their accommodation into the total system of plan management will evolve later along the way. The framework of institutions which will forge a unity out of large scale, small and medium sized industrial and service systems must be developed in later steps. This is true of the capital supply, the technical development policy and of raw materials supply. We must find a socialist solution to all of these.

[Question] From the preceding we can surmise that today the qualified specialists are "retreating into the basement" and are producing shortage items.

[Answer] Unfortunately this is true, but we can use this phenomenon as a sort of "pressure relief valve." The esteem for intellectual work in Hungary is low and its place in the order of social values is inappropriate. This can and should be changed, but debates are raging about methods to resolve them. First of all, in the appreciation of intellectual work, outstanding accomplishments must gradually receive increasingly greater monetary and moral recognition. Our society is not able to raise the average income of this group significantly from one day to the next. Besides, it can be questioned whether as a result of current social selection the ones employed in research and development positions

and in creative intellectual endeavors are in all cases those who in fact can produce well, and thus deserve large scale income increases. Because of the regrettable selection of the unfittest demonstrated by examination of various intellectual fields, perhaps many are not capable of more than the r level of performance of today. In that case, why should they receive more pay? The outstanding rather should be paid more. The 35 years of experience in building socialism in Hungary indicates, however, that the tendency to equalize seems to have nearly the force of a natural law, and is always regenerated. The rewarding of outstanding performance is up against this obstacle which must be deliberately countered. The forces and mechanisms of equalization are so stubborn that the requirement for a higher esteem of values must be deliberately brought into our social-economic life from the outside. It would not be good if some distorted form of differentiation arose on the periphery of the official social order, or outside of the first economy, in the second.

[Question] As far as differentiation is concerned, today nearly everyone thinks of it in terms of money. Is it not possible, and should there not be a change made in social values?

[Answer] But of course. Under current conditions, however, an increase in the moral esteem can be imagined only along with monetary considerations. It is an undeniable fact that in intellectual work success is in the accomplishment itself and in the securing of its acceptance by society. There is also a significant difference between mere official state recognition of the creative and the according of a higher position to intellectual work in society's order of values. The former should not, in any case, be disparaged, but ideally it should rather be a consequence of social approval. If society is innovative, then these values are accepted and the true accomplishment from the false and genuine action from the apparent are precisely distinguished. Society must recognize that the "good and the well" at the work benches and in the fields depend primarily on the level of intellectual work. The oversimplifying conception that all we need for significant improvement in Hungarian performance is simply to be more industrious and exact and to have better work discipline must be discarded for good. These are requirements, but are insufficient in themselves. If we are not successful in raising the level of intellectual work significantly, then the additional and more industrious work will not be turned into value--emphatically into value recognized on the market. The market, competition and the effectiveness of intellectual work are three factors which must be brought into harmony quickly.

[Question] This depends in no small measure on the selection of leadership. It is thought provoking that more than 30 years after the socialist revolution not a small portion of highly qualified individuals are working in positions inappropriate to their capacities. Moreover, a significant proportion of the leadership also does not have the appropriate specialist training. How then can we expect to have quality organization and direction and an esteem for intellectual work?

[Answer] The chaos in intellectual reproduction is actually perceivable and can be traced back to the lack of balance among education, employment requirements and the efforts of the youth. Thus, changes would be necessary in all three areas. The problem of the direction, however, is another matter. Man-

agement and expertise taken in the narrower sense are divorced from each other in not a few cases. Naturally, improvement is needed on all levels. Within this, the selection system for directors needs critical review since there are no ready formulas. A director selection which is more public and which can be continuously monitored is needed. It can have vigorous democratic features, but in certain cases the method of selection from above should not be discarded. Neither should a combination of both methods be disregarded. I would not cast my vote for either side. First of all, I agree with those who contend that there ought to be competition for every type of intellectual position, whether it is leadership or subordinate. If there is no competition for employment on the lower level, then truly suitable personnel will not be developed for leadership. When the economic mechanism was developed, such a basis was formulated, but afterwards it became a formality for some professions or faded out of use and implementation. In addition, the leadership of institutes and enterprises also should become more open and the cares and joys ought to be shared with the intellectuals, and naturally the intellectual segment of the working class have a greater need for information than the average worker. In many places the enterprise intellectuals are lulled with superficial information to the belief that all is well. Then in some cases the opposite breaks out unexpectedly. Thus there are no volunteers as replacements in leadership positions.

[Question] If in our economic life the differentiation between the various enterprises and institutes would be made clear cut, the problems of underutilization or low utilization of intellectual capital would almost automatically disappear among good workers. Would this be an excessive simplification and conclusion to our discussion?

[Answer] No. We need a social-economic medium in which the good and the bad, and the strong and the weak performances are not hidden from society. As far as political-economic leadership is concerned, realistic positions, perspectives, incentives or restrictions are necessary. The content of political work must be made more economical--and by this we do not mean apoliticism. The intellectuals should receive a greater role in the formulation of policy, and not only in its approval. We must and we are able to conduct a worker policy today--different from earlier ones--in which the intellectuals are the key figures and not simply supporters. A necessary corollary of this policy is the increasing harmony of perspectives among the various specialized intellectual groups--economists, technologists and cultural workers.

9093

CSO: 2500/123

EXCHANGE RATE POLICY, INTERNATIONAL INFLATION PROBLEMS DISCUSSED

Budapest FIGYELO in Hungarian No 5, 3 Feb 82 p 3

[Article by Ivan Wiesel: "Market Politics and International Inflation"]

[Text] One of the classic tools for realizing economic goals is exchange rate policy. There is a cause-and-effect relationship between the balance of foreign markets and fluctuations in the exchange rate. The all-time market level and other means not related to the market but similar in effect—such as tariffs, the quota system, subsidies and curtailments—significantly influence the domestic price level, capital mobility, and through these, income and demand.

It does not suffice to look at the effectiveness of exchange-rate policy simply from the standpoint of foreign balance. It can only be evaluated with consideration to the development of real currents in the economy.

Fixed--Free--Floating

The exchange rate policies employed in individual nations are quite varied. However, all can be categorized between two extreme types—fixed and freely fluctuating exchange rates.

In the case of the fixed rate, the exchange rate is only rarely changed, by the decision of the national central bank. Movements of the exchange rate in this case are only loosely tied to changes in the international currency market and real domestic currents: they either follow these, or proceed ahead of them. Central banks are sympathetic to supporters of fixed parity, because they can enjoy the flowering of exchange policy that comes with changes occurring on administrative paths. Change in the exchange policy then affects the entire economy simultaneously.

In the case of freely fluctuating rates, policy can only be effected through market mechanisms—for instance, interventionary buying and selling by the reserve bank, or changes in the discount rate.

We can observe these means in the present financial policies of many capitalist countries with floating exchange rates. ("Floating" rates differ from the classic free market rates in that they may fluctuate between certain acceptable boundaries determined by the central banks of the individual countries.)

From the standpoint of exchange rate policy, the type of economy in the country is also important. Different exchange rate policies are connected to the Keynesian model, the Chicago school model, and the various state capitalist models of developing countries. Even models and economic principles that prohibit state intervention do not deny the necessity of employing exchange rate policy.

Whose Weapon is Currency?

The effect of exchange rate policy on the national economy depends to a large extent on how it relates to the division of labor among countries and what role it plays. In smaller countries with "open" economies, exchange policy decisions can significantly influence general domestic price levels, the rate of employment, and economic growth. In this respect, the firepower of the "currency weapon" is relatively smaller for countries with large internal markets that have foreign market dealings on a smaller scale.

In terms of the effectiveness of exchange rate policy, the role that the currency plays in international calculations is a significant factor. It is obvious that so-called key currencies such as the dollar will influence the domestic market and international decisions equally. Thus exchange rate policy decisions in America regarding the dollar will touch the sphere of international finances more than the development of the internal economy of the USA. The currency tensions of the 1970's adequately demonstrated this point.

It is also important which currency zone, which economic integration group, and which currency's attractive sphere the country belongs to. It is quite apparent, for instance, that the currencies of the dollar belt (Panama, Canada, etc) in general mechanically follow the dollar. The Holland florin, the Austrian schilling follow the exchange rate of the West German mark. Nevertheless, the currencies of the European exchange system can only float to certain limits relative to each other. In case of necessity, it is the responsibility of the central banks to effect changes in the "exchange-rate snake."

The effects of fluctuations on income balance (during increases: cheaper imports, the outflow of capital; during decreases: more marketable exports, the influx of capital) is well-known from technical literature. Nonetheless, economists have paid little attention to other economic effects, although their importance cannot be ignored.

Appreciation brings about deflationary effects in the economy. However, until the marketability of the country's export goods declines because of deflation, revaluation is not detrimental to the rhythm of the country's economic growth, its foreign exchange reserves and its employment. An example of this is the economic development of the 1960's and 1970's in West Germany and Japan.

Vicious Circle

However, the deflationary effect can cause problems if the marketability of exports declines. In this case, foreign exchange reserves must be altered and the economy must be financed by foreign credit. In turn, the excessive

influx of foreign capital turns the deflationary effects around and brings about inflationary pressure in the economy as a result of the budgetary loss. Austria provides the typical example of this case: its crisis conditions are inseparable from its deficit financing and its state and foreign debt.

Depreciation brings about inflationary effects. Namely, depreciation brings about a general price level increase, because price increases cannot be limited to the circle of imported goods. General price increases necessitate the increase of minimum wages, even if real wages are decreased; this brings about the "vicious" circle of wage and price exchanges. This "vicious" circle has a deflationary effect at a certain point: when inflation has caused such a decrease in production that marketability cannot be maintained. We can observe this occurrence in the case of the French, Italian and Belgian economies.

Perhaps these few examples illustrate that the opinion that appreciation always brings deflation and depreciation always brings inflation is incorrect. These criss-crossing effects are also increased by the fact that currency and price policy tools besides the exchange rate (subsidies, tax exemptions, etc) are overgrowing. As a result, decisions and market actions pertaining to the exchange rate produce less and less certain results. Thus, neither deflationary nor inflationary effects can be found in sterile form.

In international economic relations, increasingly important noneconomic factors can also cross planned exchange-rate policy effects. In international economics, there are general and specific occurrences which have brought market risks greater than exchange rate fluctuations to the surface, and thus the economic role of exchange rate corrections has been moderated.

Because of all these factors, prediction of the effects of exchange rate policy holds much uncertainty. Estimation is also hampered by the fact that we have not yet found the ideal rate from which all deviations could be calculated.

A Weakening Monetary System

Previously, economists showed great partiality for the buying power rate as the center of exchange rates. Through various methods they computed domestic price levels, and they considered the ratios to correspond to the buying power (real) rate.

Perfectly freely fluctuating prices are nowhere effective today, due to the price regulation of state and international monopolies, etc. Thus simple computation of price levels can hardly be significant as an exchange rate deciding factor. Today, not only has the gold standard ceased to be the source of fluctuations in the exchange rate, but buying power has also. This is supported by calculations of the buying power rate appearing in technical literature.

The present high interest rate and significant differences in interest have caused a rediscovery of interest parity in technical literature. (Interest parity--with very diverse methods of calculation--seeks to determine the connection between daily and periodic interest rates and the motifs of the expectation of capital.)

Interest parity indeed seems suitable for determining the incentives for short-term capital movements, but it is not suitable as a basis for the central bank's exchange rate policy decisions. I say this even though the present high American interest rates apparently contradict my statement.

Because of the present high American interest rates, capital is flowing not into the productive, but into the monetary sphere. This perpetuates the stagnation of the capitalist world economy and may eventually cause the as yet unforeseen deepening of the financial crisis.

It is even apparent today that the quality of the international financial system is declining. The IMF era and countries seek to develop effective means to "counteract the exchange rate weapon."

9890

CSO: 2500/125

BRIEFS

BEEF CATTLE RAISING ASSOCIATION--An association for increasing the herd of beef cattle and for making such enterprise more profitable has been formed with 60 participants. The Agricultural Combine of Mezohegyes will be in charge of operations, and collaborators will include state farms, coops, sugar factories, the Livestock Breeding Research Institute, the Animal Trading and Meat Industry Trust and the foreign trade enterprise, Terimpex. Beef cattle raising has been stagnating over the past few years, and herds have declined in number. The conditions under which the animals were kept virtually precluded an increase in profitability. Because beef is in demand abroad, it is important to increase the size of the herds and raise them more efficiently. At present the herd of beef cattle consists of 75,000 head, and it is estimated that as the result of the new association the number will double by 1985. [Text] [Budapest MAGYAR NEMZET in Hungarian 5 Mar 82 p 5]

CSO: 2500/157

FOREIGN AFFAIRS MINISTRY PRESS CONFERENCE ON REFORM HELD

Warsaw RZECZPOSPOLITA in Polish 15 Jan 82 p 8

[Article by jt]

[Text] Zdzislaw Sadowski, deputy to the government plenipotentiary for economic reform, and Jerzy Urban, press spokesman for the government, answered questions of foreign newsmen at a conference 14 January at the press center of the Ministry of Foreign Affairs. Here are the main points of the government representatives' statements.

Provisional Economic Situation

The government's resolution of 30 September 1981, concerning principles of enterprises' activities in 1982, can be defined as provisional only in its legal and not economic interpretation, despite its current designation. The time factor decided the necessity of its introduction. It was necessary to create such a legal situation—before the Sejm would pass acts establishing the final form of the reform—that the enterprises could operate on new principles as of 1 January 1982.

Centralized Distribution

Only 16 groups of raw material commodities are distributed in a centralized way. Instead of the general distribution of means to carry out particular orders, state-controlled raw materials are distributed in the first place to those enterprises that produce consumer's and exports goods or render welfare and communal services. The majority of enterprises operate under an entirely new system, which requires initiative in obtaining means of production and in forming a production profile.

New Retail Prices

A recently published booklet, containing the new price and compensation system, presents one of the proposals under consultation with the community. The question of price and compensation levels is not yet settled. The decline in the standard of living is already a fact because of a deficient supply of goods. There is no other way to save the market but a price increase. The question is in what way the rise in cost of living can be compensated for

social groups with different incomes. A dangerous situation could arise-- a too large "flattening" of incomes may limit to a considerable degree the motivation for more efficient work.

Cooperation With Foreign Countries

The new economic system includes very strong incentives for enterprises to expand export. This may call for the introduction of controls to prevent the impoverishing of the domestic market. Export presents the only possibility to pay the debts. However, in order to increase export, import of production means is necessary. Possibilities of obtaining larger imports from the West would set our export in motion, as well as eliminate to an important degree our own limitations in technical materials and goods. In this way our enterprises would finally gain total independence.

9841

CSO: 2600/300

ECONOMIC PERFORMANCE IN 1981 ANALYZED

Warsaw ZYCIE GOSPODARCZE in Polish No 1, 24 Jan 82 p 11

[Article by Janusz Gorski: "Economy 1981: Elements of Diagnosis"]

[Text] The Polish economy of the late 1970's was a seriously sick one. On the one hand, it was mired in the debt trap; on the other, it was plagued by increasing inflation. Opportunities for raising production and national income were increasingly limited by the bottlenecks on imports, raw material and energy supplies.

Failure to solve the problem of retail and producer prices along with the obsolete, overly centralized system of management did not provide prerequisites for economic activities and led to the preservation of obsolete, inefficient production structures.

Opportunities That Slipped By

Were there opportunities for overcoming this "sickness" and embarking on a road of normal development?

Attaining equilibrium required boosting exports in order to secure equilibrium in the trade balance and, further on, quotas for increasing raw materials and coproductive imports and for at least partial servicing of the debt. Demonstrating to foreign countries that Poland was beginning to attain equilibrium in payments turnover could provide the opportunity to secure the rescheduling of debts and to obtain additional credits for the payment of the debt service, which would be decreasing over several years. From the economic standpoint, such a maneuver would give the economy a chance.

However, the growth of exports required temporary limitations on domestic consumption and investment as well. Reducing grain imports could have played a role in releasing funds for increased imports necessary for production purposes and for an increase in export-oriented manufacturing. In the year 1980, this measure would have required reducing consumption by 6 to 7 percent, which would have allowed the economy to break through the bottleneck of debt trap and, given the introduction of the economic reform, created conditions for turning the economy around and gradually increasing its efficiency.

Reducing consumption by 6 percent and limiting certain investments would have provided for eradicating the inflationary gap and securing commodities with a value of about 80 billion zlotys for export. This would not have been an easy measure to implement; nonetheless, there were opportunities at the time for increasing many commodity exports to both the West and CEMA. An equivalent of about \$2 billion could have been obtained; this would have allowed us to attain equilibrium in the trade balance and also to transfer part of these funds to cover the debt service payments.

Carrying out this undertaking, however, was not possible in the political environment of early 1980. It required that the leadership of the country admit the defeat of executed strategy, which had been considered optimal for so long, and that social acceptance be acquired, which also was not possible at the time.

Changes initiated in August 1980 gave rise to hopes of increasing the efficiency of economic processes, of creating an environment conducive to work and a relatively fast overcoming of the economic crisis. Unfortunately, it turned out, as early as the last months of 1981, that numerous destabilizing processes evolved in the economy and the social sphere alike, causing a further exacerbation of the process of economic breakdown.

Manifestations of Breakdown

The decline of production and national income in 1981 by about 15 percent—or compared to the relatively normal year 1979, by about 20-21 percent—was among the most important manifestations of the breakdown. This is a very significant breakdown, unparalleled in the postwar period in any capitalist or socialist country. The breakdown in 1980 spread primarily to agricultural production, largely due to the bad harvest. In 1981, however, the breakdown occurred primarily in industrial production while continuing in agriculture, where, to be sure, crop production increased by an appreciable quota, but animal husbandry declined due to the fodder shortage caused by the bad harvest of the previous year.

The total decay of the market is an example of breakdown that immediately meets the eye. In the final months of 1981, shortages increased in the meat market, hard cheese supplies fell short and gaps appeared in the furniture market. During 1981, all markets successively collapsed before September, food and nonmanufactured goods markets alike. Rationing was extended to many food items.

The deepening state of disintegration, of ~~breaking~~ cooperative links, of raw and other materials shortages, especially ~~the~~ imported from second payments area [capitalist countries], shortages of energy, etc., became characteristic of our economy. The deterioration of economic links between the city and the countryside occurred, manifested in the reduced procurement, which was not commensurate with the decrease in agricultural production. Various modes of barter among industrial enterprises and among agricultural producers and industrial enterprises evolved.

As public opinion saw it, the reasons for the precipitous breakdown of 1981 were connected only with the initial stages of the crisis, which manifested themselves in the end of the previous decade. This reasoning was especially fostered by the propaganda arms of Solidarity. This is not entirely in agreement with a correct economic evaluation. The magnitude of breakdown also resulted from the emergence of an array of additional phenomena, which could have been avoided under normal conditions.

Foreign Trade--The Ultimate Bottleneck

One can risk making a statement that a precipitous fall of imports from the countries of second payments area due to decreasing exports was the initial cause of the breakdown in production. Polish exports to these countries fell by 25 percent during the first 10 months of 1981, or actually by a real value of 35 percent since the prices of exported goods increased by almost 10 percent. As a result, imports decreased proportionately, which had a significant unfavorable effect on the economy, considering its express dependence on the economies of capitalist countries.

The precipitous collapse of exports was linked primarily to the decline in coal production and, to a certain degree, to the declines in copper, sulphur and silver output. The decline of coal production by about 20 million tons (compared to 1977) meant a decrease in coal exports by more than one-half (by about 25 million tons). This means that export capacity of about \$1.4 to 1.5 billion was eliminated, given the current high coal prices.

The total quota exceeds \$2 billion if losses caused by the decline of copper, silver and sulphur production are included. Securing additional export capacity of \$2 billion would have enabled us in 1981 to solve many problems of raw materials and coproductive exports, to maintain the level of production in manufacturing industry, which was in many cases depressed by [the unavailability of] minor hard currency inputs. Most importantly, it would have enabled us to increase exports of many manufactured goods that were in considerable demand.

The decline of exports to the second payments area undoubtedly made it considerably more difficult to talk with Western banks on rescheduling the debt. Postponing debt payments was helpful to a degree; the arrangements made were more favorable with regard to the public debt and less so with regard to the debts incurred in the banking system. However, we did not manage to obtain new credits in order to compensate for the decline in imports and maintain industrial production even at the previous levels. It seems that a certain segment of Western politicians was banking on the decay of socialist structures in Poland.

It follows from available estimates that if we had had about \$1 billion dollars in exchange funds in 1981, it would have allowed us to loosen the abominable chain of coproduction difficulties, to increase the rate of export production and to improve the market situation appreciably, primarily due to the increase of domestic production.

This chain operated in the following way: Since export was permanently falling, import had to be kept down. Food imports could not be curbed, so imports of raw materials and coproductive commodities were restricted. As a result, domestic industrial production decreased and, along with it, export capability. The negative balance in the foreign trade remained the same but at lower volumes of production and national income.

Shortening the Workweek and Growth of Income

In 1981, the decline in coal production and the restrictions on energy deliveries that it entailed also made a direct negative impact on the volume of domestic industrial and agricultural production. The impact was especially strong in the production of cement and other construction materials--and, consequently, on construction activity--and in the production of many chemical compounds, iron and steel products, etc.

This precipitous breakdown was primarily associated with the shortening of the workweek in mining and in the raw materials industry in a hasty fashion and with no organizational preparation. Aborting the process of shortening the workweek in the mid-1970's after attaining the level of 12 free Saturdays [annually] was an undoubted mistake of the leadership in the past decade. However, decisions of this kind cannot be implemented overnight. Inasmuch as the majority of manufacturing industries had considerable organizational reserves and worktime in many cases was utilized inefficiently due to the shortages of raw materials and energy, applying that same reasoning to raw materials industries had to lead to a considerable decrease in the volume of production and respective deterioration of the overall situation in the economy.

Increasing output, especially in the coal industry, was achieved through excessive lengthening of worktime, resulting in mines operating on a considerable number of Sundays. However, stirring up uneasiness by the slogan "all Saturdays free" in mining, which the leadership of Solidarity did, harmed the interests of the entire society and was bound to become the reason for a significant production breakdown. This also goes for the striving of the leadership of this union to frustrate volunteer work on Saturdays in mining in 1981. In that year, the linkage between the slump in production and the decrease in raw materials output was beyond doubt only for economists but for any sensible citizen as well. The aims of this struggle were clearly political.

The growth of average wages by almost 30 percent over 1 year was another reason for the precipitous aggravation of the crisis in the Polish economy. From the standpoint of the state of the economy in 1980, the decisions of wage raises were forced and incorrect. As mentioned, the economy was characterized at the time by the state of general disequilibrium. The inflationary gap was already in evidence. The real economic situation, however, was not known to the majority of our society. The negative effects of the success propaganda were taking a toll. Inflationary processes that had been developing for several years caused dissatisfaction and demands for wage and income compensation to which the society had been accustomed in the 1970's, when the growth of wages was divorced from the national basis of the growth of productivity.

The eighth demand of the Gdansk MKS [Inter-Enterprise Strike Committee] of August 1980 read: "To raise the basic wages of each worker by 2,000 zlotys per month by way of compensation for the growth of prices so far." This was an unrealistic demand, though formulated in a practical fashion. The question should be asked: Why the economic experts of Solidarity with many economists highly knowledgeable about the state of Polish economy among them, did not try to state that this was not the way to overcome the crisis and improve the state of the economy, that this growth of wages will be only nominal and, moreover, paid for by the disorganization of the market. It may once again be suggested that at issue were primarily political ends and rallying the support of a significant segment of society through demagoguery.

State of the Market

The progressing disorganization of the market was a result of the growth of wages. The current inflationary curve, defined as the excess of the flow of incomes over the flow of commodity and service production, amounted to more than 250 billion zlotys in 1981. Thus the former flow exceeded the latter by 15 percent. The magnitude of the curve was kept down by price increases, which over the last year amounted to more than 10 percent in the socialized sector. Without those increases, the magnitude of the curve would have reached 400 billion zlotys. As already mentioned, the curve successively eroded the markets, which was facilitated by the simultaneous significant drop in production. As a result, a situation emerged in our country that can be described as a state of "barbaric" inflation.

The phenomenon of inflation is not new; it has been experienced in all contemporary countries. The specific nature of inflation in Poland was associated with the fact that in our economy prices for a considerable part of basic products were fixed. The policy of flexible pricing applied only to a few items such as fruits, vegetables and products of the private sector. Under such circumstances, the available surplus of incomes over the volume of delivered goods and services led to almost all goods in stores being snapped up and also caused a disproportionate, simultaneous increase of prices in the free market, where a large share of "free" income was funneled. The price gap between the socialized trade and the free and profiteer's markets had to widen increasingly.

In Western countries, the process of wage growth is accompanied by growth of prices, which is often very steep—in recent years up to 10 to 20 percent annually. As a result, goods are available in stores, since the growth of prices eliminates excessive growth of monetary incomes. This is regular inflation, which we may term "civilized." In the Polish environment, with a certain rigidity of prices, especially for basic foods, inflation manifests itself in the inflationary curve that erodes the market, where goods simply become unavailable.

Inflation of this kind gives rise to additional negative economic consequences not present under "civilized" inflation. Among these consequences are the development of profiteering due to the existence of considerable price differentials between the official and the "black" market, the disappearance of incentives to work productively (the income received is more than sufficient

to purchase official rations) and immense loss of time associated with the lining up of numerous persons, and this during worktime. It is exactly these additional consequences of this type of inflation that allow us to term it "barbaric."

Ties Between the City and the Country

The severing of economic, and especially commodity, ties between the city and the country became a specific element of the economic situation in 1981. The production capability of Polish agriculture deteriorated in the last years of the [previous] decade. This was caused by both the unfavorable average weather conditions and a certain deterioration of the supply of means of production. Under the conditions of 1980, which was unfavorable with regard to yields, monetary income in agriculture sustained a certain decline. Under the influence of too shallow an evaluation of economic reality and of pressures from trade unions, especially rural and urban Solidarity, the strengthening of economic ties between the city and the country was sought through a basic raise of procurement prices for crops. This raise was supposed to create stimuli for financial interest in the quick development of production.

In two subsequent steps, an almost 100 percent raise of average procurement prices was instituted, which boosted twofold the flow of funds to agricultural producers—from 250 to about 500 billion zlotys at regular yields. Unfortunately, in making these decisions, opportunities for increasing the deliveries of goods for agriculture, including the means of production, were not taken into account. The available income of agriculture (after withholding taxes, insurance premiums and so on) grew almost threefold compared to the income of agriculture in 1979, whereas the production of goods for the country registered a certain drop. It turned out that the country resorted to hoarding all products that can be stored over a long time (grains, etc.), having harvested good yields in 1981 in the progressing economic chaos. The monetary income of agriculture even from reduced sales met the needs of this sector in liquid funds, which can be utilized especially given the rise of speculative prices in this sphere. The growth of such incomes affects the strengthening of the inflationary trend already evident in the economy. This is one of the economic paradoxes; under the conditions of disturbed equilibrium, the growth of prices may stop encouraging the increase in production and may even affect a certain limitation of its scope.

Destruction of the System

Spreading strikes had a very substantial negative impact on the economy. Direct losses caused by work stoppages were not the most important ones, though in many cases those were significant, as, for example, a protracted general strike in Zielona Gora Voivodship sparked by an irrational petty personnel decision, a strike in Tarnobrzeg Voivodship and so on. Even more important was the negative influence of permanent strike alerts, the paralysis of the management apparatus at the level of enterprises and the entire economy. This apparatus was trying to strike a balance between contradictory interests while being deprived of executive privilege and at the same time was trying with great dedication to restore the severing lines of production and coproduction ties. In many cases, emerging self-government bodies did not take up matters of production in the enterprise but rather played up political issues

under the influence of Solidarity leadership, such as the elimination of party organizations from enterprises, dismissal of unfavorably disposed personnel, etc. This reinforced the trend toward anarchy in economic and social life. The threat of a strike, which was frequently called over quite minor issues, rendered impossible the functioning of authority, without which no economy can operate.

In 1981, especially during the first half of the year, many elements of the "magic" thinking about the problems of economic reform spread. The shortcomings of the centralized management system have been mentioned and nobody intends to defend it. However, eroding the existing system before a new one could be worked out aggravated the situation still further instead of improving it. Elaboration of the economic reform went in the direction of increasing the autonomy of enterprises and strengthening the use of commodity and monetary mechanisms. Undoubtedly, this was a correct direction. At the same time, a tendency emerged, which was reinforced and propagated by the economic and news media communities, toward the extreme limitation or even eradication of all functions of central control and transition to the action of entirely unrestricted market mechanisms.

A vision began to take shape in Poland of a system of perfect competition between enterprises guided in their activity only by the signals picked up in the market. The feasibility and opportunity of a return to the system of perfect competition were not under discussion. This system was characteristic of the capitalist economy of the 19th century, the economy of small and atomistic enterprises, none of which occupied monopolistic positions. In contemporary industrialized economies, in Western countries as well, forms of centralized control have emerged, employing parametric devices (prices, interest rate, taxes, etc.), the information system and investment policy. It is difficult to say whether this attack against the elements of centralized control originated solely due to a utopian belief in the efficiency of market mechanisms or due to the desire to bring about the erosion of all the elements of the system and thus the desire to wreck the socialist system.

In the conditions of far-gone decay of the economy, elements of centralized operational activity are needed in order to overcome this decay. There probably were too few activities of this kind in the Polish economy in 1981. Thus, the average economist could not comprehend why in the transitory stage of economic reform there was an attack against the partial preservation of allocating some raw and other materials in short supply needed for the implementation of operational programs. In the current environment, the wholesale cancellation of allocating coal, energy, other raw materials and semifinished products would lead to their shortage in the production of basic commodities, where prices will be fixed in a centralized fashion and in many cases below the social cost of production. At the same time, raw and other materials would be available for the production of higher standard lines of commodities, where prices would be set without control.

Second, given the shortage of raw and other materials, the danger would arise of enterprises not being able to assemble sufficient quantities of these materials and, therefore, part of them could be badly utilized. It is no accident that in the year 1981, the year of raw and other materials shortages

declining final output, the stocks of materials in most industrial enterprises registered very significant growth. The regulation via market mechanisms does have its virtues—if the supply situation is normal.

The year 1981 drew to a close in an increasingly powerful economic crisis. The crisis was characterized by increasing disintegration, severing of coproduction ties, shortages of raw and other materials and energy and so on. The drop in production was not contained and neither were the further decline in labor discipline and the strengthening of the inflationary process. The threat was becoming increasingly real of the economy simply splitting into several or a dozen centers that would try to produce something for local needs. In such a case, the only integrating element between them would be found in the attempts to wrest coal from Silesia in bartering for food and industrial consumer goods. Of course, even more apocalyptic visions of what this state could have led to can be painted.

It will probably be determined in further, more elaborate studies why in 1981 so many illogical destructive actions on economic matters promoted decay in the economy. It is difficult to determine at this moment which of these activities were due to conscious ill will and which to the uncritical belief in the truth of new slogans, how much of it was Polish disarray and how much, the tendency to subvert the system. The year 1981 did not make the Polish economy healthier; on the contrary, activities lead by Solidarity aggravated the breakdown significantly and made coming out of the crisis and achieving stabilization much harder than in the beginning of 1980. New bills, which the entire society will have to pay, were incurred.

Many questions linger over the economic situation of the country. On 13 December 1981 we made a choice, as General Jaruzelski put it, between the greater and the lesser evil. Making this choice was a sad, national necessity. At this moment, we can already say that we have avoided the worst, that we are not threatened by further chaos and the erosion of the economy. The return from a long trip or truancy, where a large segment of our society went, may be more or less difficult. (It is an important and interesting issue why they submitted to being led there with such ease.) It depends on the society itself, on its ability to understand elementary truths saying that the way to well-being always requires honest and productive work, that something must be produced first and allocated second, that implementing economic and social reforms requires order and social peace, that confidence in the state is necessary and in its turn the state must be subject to the mechanisms of social control. The more quickly these truths are understood, the more quickly the losses of the previous decade and the still larger losses of 1981 can be made up and we can embark on a road of constant, stable development. We have adequate manpower and material potential to implement such development.

9761

CSO: 2600/258

BASIC PRINCIPLES OF INVESTMENT FINANCING REPORTED

Warsaw ZYCIE GOSPODARCZE in Polish No 2, 31 Jan 82 p 5

[Article by Henryk Mlodzianko: "Principles of Financing Investments"]

[Text] In light of regulations of the PM's [Council of Ministers] resolution of 30 November 1981, economic organizations and banks will conduct finance and credit activity in the investment sphere in accordance with the following principles.

1. In state enterprises there will be only two categories of investments: 1) central and 2) enterprise. The intention of this division is, first of all, the localization of the organizational unit's [plant and equipment] responsibility for investment decisions and economic-financial results. A no less important aspect of this division is creating conditions for independent and rational management of monetary resources in an enterprise and tying in central investments--undertaken with general economic and social circumstances in mind--with the monetary possibilities of the state budget as well as of the enterprises themselves, since they will be the users of the new--as a rule, large--amounts of fixed assets.

The decision on each new central investment will be made at the highest level by the Sejm or the Council of Ministers after research, design, work on balancing accounts and the like have been completed. Consequently, these will be the largest industrial undertakings of a nationwide infrastructure, whose financing exceeds the finance possibilities of one or even several enterprises. Moreover, it is being organized so that this category of investment will not predominate, for the share of outlays for central investments will not exceed 30 percent of the total volume of outlays in the socialized economy (in 1982 this share will amount to an estimated 15 percent).

On the other hand, the second investment category is the sphere of independent decisions undertaken by the management of enterprises and workers' self-government bodies dependent on their own financial means and acquisition of credit, which banks will grant according to the credit policy established by the government and depending on the level of effectiveness of the economic (financial) investment.

2. The category of central investments has already made its appearance in 1982. It is the result of verification and selection of previously developed investments that have not been completed before 1982 or that were going to be completed but for various reasons were not begun in past years, although justified as a result of production ties with ongoing investments that had been started.

In 1982 almost all investments being made are continuous investments whose further implementation and completion--in light of the most urgent needs given the limited possibilities of investment--are recognized as indispensable.

The Council of Ministers has examined and approved an individual list of these investments; at the same time, it has established that outlays for these investments are in amounts with fixed limits. This obligates investors to be coordinated properly with contractors and suppliers regarding labor and deliveries of machines and fittings in 1982 within the limits of established outlay quotas.

3. These determinations are equally binding for banks, which, in practice, means an extension of the validity of credit agreements negotiated in previous years and assurance of the continuity of granting credit but only to central investments are included in the individual list approved by the government (this list is an enclosure to the resolution regarding the central social-economic plan for 1982).

Resumption of granting credit can take place only for qualified investments for central investments and not any earlier--as anticipated--than after 1983 in case there is a need to change the material-type designation of the qualified investment.

4. An essential change in the principles of financing has occurred in the area of sources for carrying investment outlays.

Beginning with 1982, central investments will come from three sources: 1) bank credit, 2) the enterprise development fund and 3) state budget subsidies. The amount of monetary resources appropriated from these sources for financing each specific investment will be determined in the investment decision, which will be expressed in the agreement as it is negotiated between the industrial-type ministry and the enterprise over the performance of duties of the immediate investor and the future user of fixed assets. This systems-type principle will be implemented in 1982 in regard to continuing investments. This agreement is the basis for important determinations between the enterprise and the bank concerning the amount of credit for financing outlays indispensable for completing investments. Enterprises in particular ought to coordinate with their own bank branches the quotas for development fund resources and budget subsidies designated for future--beginning with 1982--financing of outlays until the investments are completed. The bank credit quota left for utilization after 1981 from the total credit quota designated by the credit agreement negotiated before 31 December 1981 will be reduced by the equivalence of these resources. The enterprise should make out monetary drafts from the development fund and budget subsidies to the appropriate account in coordination with the branch bank.

Utilized bank credit will be subject to repayment from fund development resources in a period established in the credit agreement. The present provisions of agreement on credit concern in part the period of repayment; also when repayments on the first annual installment are due, they will be subject to verification and adjustment to the current systems-type principles and altered conditions in forming the enterprise's financial situation.

However, this will be possible only after fully recognizing the financial effects of supply-investment and market price reforms as well as calculating the outlays indispensable for completing investments at new prices. Moreover, the remaining elements that decide the level of financial effectiveness (profitability)--i.e., the value of production from future fixed assets as well as prime costs must be calculated.

5. The enterprise investment category in 1982 will be made up of former development investments, which are not included among the central and renovation-modernization investments, the highly effective quick-return investments and the social and housing fund investments.

An estimated 37 percent of the total volume of outlays in the socialized economy in 1982 will go into enterprise investments. The actual share of outlays will be formed under the influence of the supply of capital goods and services and the supply-materials distribution policy, as well as the demand determined by the amount of the enterprises' monetary resources and bank credit assigned to this category. In connection with this, the amount of credit and banks' credit policy are the main tools of intermediary influence on the amount and structure of enterprise investments. Only that part of the total amount of planned credit left for satisfying the demands of granting credit to continuing investments will go into new investments in 1982.

6. In accordance with the assumptions of the credit policy accepted by the government, the banks will grant credit in 1982 to enterprise investments ending in 1982 and 1983, if these enterprises are connected with food production and production means for agriculture, save on fuel and energy, increase export production or decrease (replace) imports and rely both on building construction involved in developmental undertakings and investments of socialized units and small-scale industry that operates according to the principles defined in Resolution No 112 of the Council of Ministers of 8 June 1981.

By ensuring credit to these investments, banks will turn their attention to the feasibility of termination dates of investment tasks in light of verified agreements on the execution of construction-installation work. In the case of a recorded improper concentration of investment outlays or absence of conditions for proper implementation and completion of investments in 1982 to 1983, banks will refuse them further credit.

In order to ensure continuity of credit to the investments that have been discussed, state enterprises ought to conduct negotiations with branch banks, whose object should be the verification of credit agreements negotiated before the end of 1981. The most urgent matter in these negotiations is the mutual consideration of a feasible termination date for investments and limits of the

share of development fund resources in financing outlays for completing an investment task. Moreover, both enterprises and banks ought to follow the principle of a monetary-credit policy that states that development fund resources should first be allocated for repayment of credits due in 1982 and then for an increase of their own funds in turnover and in financing noncredit continuing investments. The negotiated termination date of investments and the share of development fund resources in financing future investments will be the basis for appropriate changes in credit agreements. At the same time the quota of allocated credit will be reduced by the equivalence of these resources. Utilized bank credit will be subject to repayment from fund resources in the period established in the credit agreement. The basis for determining the period of repayment should be an assessment of the enterprise's financial situation--its solvency in the perspective of that time period--and the financial effectiveness of its investments. Of main importance in this regard is the period of repayment of outlays from the enterprise's expected profits from investments. Enterprises maintain the right of repaying credit in less time than established on the credit agreement.

7. Enterprise investments granted credit before 31 December 1981 and not meeting the criteria established in the assumptions of the credit policy can be continued in 1982 from resources of the enterprise's development fund. In connection with this, banks will formulate further granting of credit to these investments.

When the enterprise makes the decision to stop implementing an investment as a result of this investment being denied credit by the bank, the principles operative in relation to suspended investments will be applied. If, on the other hand, the enterprise continues to invest from development fund resources, then the bank at the enterprise's suggestion can defer the date of repayment of credit until the investments are transferred for utilization. The payment date of the first installment in such a case will be set for the year in which the transfer of the investment for utilization will take place, unless a profitable financial situation allows repaying part or all of the credit before this payment date.

Enterprise investments, as well as other socialized units of the economy, financed entirely from noncredit resources or with a share of allowed credit before 1982, are financed on existing principles within the limits of the resources accumulated by investors in their respective bank accounts. Beginning in 1982 the so-called practice of having the financing of investments, in regard to financial investment tasks, come entirely from noncredit resources is being abolished for not conforming to the assumptions of economic reform. Bank control with respect to distribution allotments of outlays, which has been connected with this institution in previous years, among other things, will therefore be discontinued.

8. Several comments are in order on granting credit to enterprise investments to date, which should be stopped in accordance with the recommendations of the resolution of the Council of Ministers in the matter of adjusting the area of investments for the possibility of investment in 1982. In this area the banks' operations will be the following:

--granting credit to investments indicated in the enclosure to the government resolution will be stopped with the exception of regulation of payments with regard to obligations and indispensable labor for protecting investments for new construction that have been suspended.

--in the case where the enterprise recognizes the need for continuing investments, further financing of these investments will be possible through the enterprise's exclusive use of its own resources. In such a case, credit utilized for financing investments is subject to repayment from development fund resources in a time period agreeable to the bank with the proviso that it is possible to defer the repayment date until investments are transferred for utilization.

9. In accordance with the established credit policy, banks in 1982 will grant credit to new investments of enterprises relying on purchases of ready capital goods as well as to short-term small investments relying on building capital.

However, in the face of limited credit possibilities and the need for ensuring the continuity of granting credit to the most urgent continuing investments, banks will not, in principle, grant credits for new tasks involving building capital during the first quarter of 1982. As for the type of investment for purchasing ready capital goods, banks will grant credit in the first quarter of 1982 within the limits of 10 percent of the purchase value but no more than 5 million zlotys to a single enterprise in the course of a year. After this period, possibilities for future credits for new investments will be determined.

One of the important conditions for granting credits for new investments will be the enterprise's assurance of providing a share of its own monetary resources in financing investments and repayment of credit from its own development fund in a time period agreeable to the bank.

9866

CSO: 2600/293

SOME INCREASES ANTICIPATED IN 1982 AGRICULTURAL MACHINERY SUPPLIES

Warsaw RZECZPOSPOLITA in Polish 22 Jan 82 p 4

[Text] This year's supplies of agricultural machinery will be 10 percent greater, in terms of value, than last year's according to 1981 prices. A great deal more of simple machinery and tools will reach the rural market than in previous years. However, supplies of more complex machinery will remain at the same level or will even decrease.

In the operational program, "Supplying agriculture and the food industry with machines and transport facilities," it is envisaged that agriculture will receive less tractors this year since only 51 thousand units, while last year it received 55 thousand units of them. This amount is made up of domestic supplies as well as those which are imported. The insufficient supply of new tractors should be partially compensated by this year's markedly larger supplies of storage batteries and tires. As it is, agriculture will receive 320 thousand units of storage batteries this year; i.e., approximately 50 percent more than last year; tire supplies will come to 1726 thousand [as published] units while last year, they amounted to only 600 thousand units. Therefore, the—until now—major cause of tractor standstills will become limited. This year's increased tire supplies will also make it possible to activate considerable numbers of wheeled trailers. Here is how the envisaged increase of certain machine deliveries is shaping up in comparison with 1981: sprayers—140 percent; electric steaming plants—140 percent; 1-row potato harvesters—147 percent; sheaf-binders—120 percent; horse-drawn mowers—286 percent; horse-drawn haymaker-raking machines—375 percent; tooth harrows—162-174 percent; tractor-drawn cultivators—300 percent; soil-tillers—328 percent; lime and fertilizer spreaders—370 percent; grain sowers—240 percent; 2-furrow, tractor-drawn plows—195 percent; 3-furrow, tractor-drawn plows—266 percent.

The growth indicators for simpler machine and tool supplies are, as can be seen, significant. This year's more plentiful offering, especially to the private, agricultural sector, was possible mainly due to a change in the production structure of the agricultural machinery industry as well as the, this time, real priorities in the supply of electrical energy and materials.

Supplies [deliveries] of replacement parts are increasing to a lesser degree than supplies of ready machinery. Including storage batteries and tires, supplies of replacement parts are increasing by only 2 percent. This will meet the demand only to a small degree because the reported demand of these parts has been much greater.

The demand for ready machinery will also not be fully satisfied despite a significant increase in supplies. It is estimated that this year's offering of the agricultural machinery industry will satisfy only 70 percent of the reported demand. Unfortunately, such are the actual possibilities of the economy at the present time.

With a smaller supply than demand in certain groups of machines, it was, quite naturally, necessary to maintain distribution. However, it should be pointed out that from the, until recently, large group of machines where regulation was implemented, this year, it remained in effect in regard to only 12 kinds of machines. Among others, the distribution of the following was maintained: tractors, trailers, lime and fertilizer spreaders, manure spreaders, clamshell loaders, 1-row potato and beet harvesters, elevator-diggers and potato planters.

This year, agricultural machinery was not centrally divided into specific sectors but only into provinces whereby this allocation takes into account the sector structure in a given province. However, the way in which this machinery will be divided among the sectors--that is something that the governor himself [of a province] decides as someone who understands the needs of his region better than the head office in Warsaw.

9853

CSO: 2600/338

INDUSTRIAL PLANTS SUBJECT TO IMPORT RESTRICTIONS LISTED

Warsaw RZECZPOSPOLITA in Polish 15 Jan 82 p 6

[Text] As of 31 December 1981, import of industrial investment goods intended for certain enterprises is restricted. Permits issued for the importation of these goods will become invalid. The minister of foreign trade is responsible for the execution of this decree of the Council of Ministers.

A full list of industrial investments falling under the definition of this restriction follows:

- 1) Katowice Smelting Works;
- 2) Laziska Smelting Works in Laziska Górne—furnace room 5 construction and works' modernization;
- 3) The Bierut Smelting Works—expansion of metal plate mill;
- 4) Baildon Smelting Works in Katowice—stamping plant complex construction;
- 5) M. Buczek Smelting Works in Sosnowiec—construction of metallurgical rollers' plant;
- 6) Drilling and mining machines factory—cast-steel foundry in Glinik Mariampolski;
- 7) Experimental-production coal gasification plant;
- 8) Electric power plant—Zatonie 2 x 360 MW;
- 9) Hydroelectric power plant—Mioty 2 x 250 MW;
- 10) Truck factory—Starachowice;
- 11) M. Nowotka Mechanical Plant;
- 12) POLMO Plant—Jelcz;
- 13) Bus factory—Sanok;
- 14) Automobile factory—Zeran;
- 15) Agricultural vehicles factory—Poznan Antoninek-Tarpan;
- 16) "Pafawag" Railroad Car Factory—Wroclaw: expansion of the plant for the production of guiding trucks for freight cars;
- 17) Polyester fiber plant—Pila;
- 18) Window glass works in Sandomierz;
- 19) Tops cotton spinning mill in Wroclaw;
- 20) Construction of the Central Coal Harbor in Tyche;
- 21) Construction of the ore transshipping base in the Northern Harbor;
- 22) Construction of the aluminium-oxide factory in Sitkowa-Noviny;
- 23) Construction of the cement plant "Przyjam II" in Wierzbica;
- 24) Ciechocinek water system.

9841

CSO: 2600/300

LOW MEAT PROCUREMENT EXPECTED TO CONTINUE

December Results, Fodder Problems

Warsaw RZECZPOSPOLITA in Polish 18 Jan 82 pp 1, 8

[Article by R. Miazek]

[Text] Recently, two pieces of information about the state of our economy have raised particular interest in our society. The first concerns the level of coal production, and the second is the procurement of livestock for slaughter. In mining, as a result of the strenuous labor of the miners, the new year has brought a significant increase in production. Thanks to this, we can hope for a revival of the Polish economy. News from the agricultural sector is not as optimistic.

December did not bring any fundamental changes in overcoming the most difficult problem—meat supply. The monthly plan for meat procurement, although set at a low enough level, was not achieved. Information supplied by the Ministry of Agriculture and the Food Economy showed meat procurement to be only 103,000 tons of meat (excluding poultry). In December 1980, procurement was over 190,000 tons, and even then there were severe shortages on the market. There was enough meat to cover rationing demands, thanks to meat purchases abroad, especially from the USSR.

In the face of bad prognoses for the procurement of animals for slaughter during the next few months, it was decided to reduce the meat allotments for office and temporary employees and to halt allotments for agricultural producers. This decision is severe for farm families who have small farms or take care of garden plots. This is why the question is universally posed as to how long will this low supply of animals for slaughter last?

When can one expect a revival of available farm animals after last year's good harvest?

The current level of procurement of animals for slaughter is a result of a decision made last year by farmers, when the fodder harvest was the worst in 20 years. It must be remembered that agricultural losses in 1980 were in areas of the highest production level, which are called the "country's granaries." It is now that we are feeling the results of those disasters, about which we have forgotten in the fervor of social events.

Taking into consideration the production cycle in agriculture, the initial effects of good fodder harvests in 1981 will be felt in the meat market not earlier than in the second quarter of this year. However, one cannot expect it to be an especially perceptible improvement. Restrictions imposed by some countries on grain deliveries to Poland will be very harmful to poultry production. Thus, we must count on our own animal production. It will be, however, a long-lasting process.

For over 1 year, a universal and public discussion has been taking place on price reform. It also is found in the agricultural market and favors setting aside the sale of agricultural products. The opening of special accounts in cooperative banks, upon which means for the procurement of agricultural products will depend on revaluation, should calm down the moods of producers. Incorporation into daily life of price reform and an improvement of supply in the rural market undoubtedly can contribute to the return of normal economic bonds and to a lively exchange between the city and the country, whose decisive link is the procurement of animals for slaughter.

Prospects for 1982

Warsaw RZECZPOSPOLITA in Polish 19 Jan 82 p 4

[Text] According to estimates by the Ministry of Agriculture and the Food Economy, the procurement of animals for slaughter and poultry in the first quarter of 1982 should be somewhat above 400,000 tons, and thus almost 180,000 tons less than in the same period last year.

The largest decline—which is almost certain as a result of a shortage of imported corn (which appears in poultry procurement)—is around 39,000 tons, or about 42 percent as compared to the first quarter of last year.

As compared to 1981, individual farms have contracted for pig deliveries of 44 percent less in January and 29 percent less in February, and for over 20 percent fewer cattle. Also, collective farms have announced over 20 percent fewer meat deliveries for the first quarter.

If the situation in the procurement of pigs and cattle does not improve in the next few months and the agricultural ministry's projections come to pass, then the market will receive around 312,000 tons of meat and meat byproducts in the first quarter, or about 68,000 tons less than in the same period last year. Poultry deliveries are estimated at around 36,000 tons, or about 52,000 tons less than in the first 3 months of last year. The greatest decline in poultry deliveries will take place in February and March. If a fundamental improvement in procurement does not take place, then in January the market will receive around 130,000 tons of meat, and in February and March only 110,000 tons each.

A consequence of the low procurement of pigs for slaughter also will be lower deliveries of animal fats and bacon. With respect to the anticipated procurement, it will be possible to produce only around 21,000 tons of lard and bacon, of which the market will receive around 18,000 tons, with the balance going to industry; e.g., the pharmaceutical and food industries.

Also anticipated is a low grain procurement, which will have a negative influence on production and delivery of flour and farinaceous products.

9807

CSO: 2600/337

INCENTIVES OFFERED TO INCREASE AGRICULTURAL PRODUCTION, PROCUREMENT

Warsaw ZYCIE WARSZAWY in Polish 11 Dec 81 p 2

[Interview with the deputy minister of agriculture by Franciszek Bobula, PAP; date and place not given]

[Text] The so-called related-sale system, introduced at the end of October 1981, which was supposed to activate procurement of livestock for slaughter, did not meet expectations of either authorities or farmers.

Admittedly, in November 1981 deliveries of livestock for slaughter were somewhat higher than in October before the introduction of the related-sale system but in the first place they did not attain the planned amounts and, second, deliveries of the other agricultural products not only did not increase but decreased still more. Therefore, after seeking again the advice of agricultural producers and taking into consideration their demands and resolutions of the agreement between the Protest Committee of the Main Council of the CZKIOR [Central Union of Agricultural Circles and Organizations] and the Interministerial Commission of the Council of Ministers, a resolution was adopted concerning surcharges to monetary funds being obtained from the sale of agricultural products to the units of socialized economy.

Thereby, the previous resolution concerning related sale becomes invalid. One should assume that the present solution will contribute to the intensification not only of the procurement but also of the production of agricultural products, both livestock and vegetable.

The meaning of this resolution lies in the fact, as stated in a talk with the PAP reporter by the deputy minister of agriculture and food economy, Prof Dr Zdzislaw Grochowski, that the monetary funds obtained both by the private and socialized farms from the sale of agricultural products to socialized procurement organizations in the period from 1

November 1981 until the introduction of the new procurement prices, will be increased by surcharges matching the increase of procurement prices. These surcharges will be granted to [private] farmers or socialized farms, subject to accumulation of the funds obtained from the sale of agricultural products on the special bank accounts.

To be sure, farmers will be able to withdraw without restrictions the monetary funds owned on these accounts but the surcharges will be owed to them not from the entire sum obtained from the sale but from what remains on the bank account. Moreover, surcharges will not cover the so-called outward production (for example, that from poultry farms), as well as horticultural and fruit-growing production, which involve prices of day and place; that is, they are regulated by supply and demand. Detailed principles of the application of surcharges will be determined by the Ministry of Agriculture and Food Economy in concert with the interested ministries and trade unions of the private farmers. The funds accumulated by farmers on bank accounts, to which surcharges are applicable, will also bear interest in the amount applicable to savings deposits payable on demand.

[Question] What have been the premises of the adoption of this very solution?

[Answer] In the recent months the procurement of agricultural products was too low compared to the production level. A basic cause of this is the awareness of farmers that the introduction of the economic reform will entail the increase in prices of the industrial means for agricultural production and therefore also that of the procurement prices of agricultural products. Farmers, unlike other groups of the population, do not receive work monthly wages to cover their current expenses.

[Question] Should we then assume that the farmers are apprehensive that by selling their products now they might to a great degree lose the effects of their whole year's work after the increase in prices?

[Answer] Yes, farmers—for whom over 40 percent of monetary income obtained from the sale of agricultural products must be earmarked for the purchase of industrial means of production, so that in the next year their farms can function normally and increase production—are apprehensive, and rightly, that after the increase of prices they will be able to buy considerably fewer means of production for the monies obtained at present. This would bring limit production possibilities of farms in the next year. For this very reason they refrain from selling those products, which they can, for a prolonged period—that is, until the increase of prices—keep on their farms.

[Question] Can we already estimate the effects of this to date?

[Answer] Certainly, we can. The most vivid example is the procurement of grain. Of the planned procurement of consumer grain of 3.6 million tons from

this year's--we procured barely 1.3 billion tons. Despite the 5.5 million tons of grain imported this year, we are over 2 million tons short compared with our requirements. If we do not procure this grain, we will be short not only of feeds but also of flour for bread, for we cannot count on its still higher import because of the lack of funds.

The situation is similar with the procurement of livestock for slaughter, especially beef, whose sale farmers may considerably delay. After introduction of the related sale in November the procurement of livestock for slaughter somewhat increased but in a degree far from sufficient.

We expect that the present solution of using surcharges, guaranteeing the purchasing capacity of the monetary funds being obtained by farmers from the sale of agricultural products to the socialized economy units, will be an effective stimulant to intensify both the production and procurement of agricultural products. For that solution meets wholly demands voiced by the agricultural producers and their trade unions.

1015

CSO: 2600/249

BRIEFS

FOREIGN TRADE ENTERPRISES—One of the meetings of the Ministry of Foreign Trade management with the directors of foreign trade and shipping enterprises took place at the ministry on 14 January. Current problems connected with the trade exchange were discussed. Particular attention was called to the necessity of smoothing difficulties in trade exchange with capitalist countries, particularly in fulfillment of imports necessary for Polish production. A major part of the meeting was devoted to discussions of principles of performance of foreign trade enterprises after the introduction of economic reforms and to the foreign trade apparatus cooperation with the industry by extensive utilization of economic tools. The necessity of the fastest possible foreign exchange write-off for enterprises producing for export has been emphasized. Problems resulting from difficulties in efficient operation have also been discussed. This concerns in particular contacts of foreign trade enterprises with local producers as well as with foreign partners. Gen Bde Jan Zielinski, commissioner of the National Defense Committee (KOK), took part in the conference. [Text] [Warsaw RZECZPOSPOLITA in Polish 15 Jan 82 p 1] 9841

LABOR COOPERATIVES—A conference of national and provincial Unions of Labor Cooperatives presidents took place at the office of the Central Union of Labor Cooperatives (CZSP) in Warsaw on 14 January. Wiktor Sielanko, CZSP president, presided at the meeting. Edward Kowalczyk, deputy prime minister, and Gen Bde Jan Sosnicki, plenipotentiary of the National Defense Committee (KOK), took part in the conference. The conference had a character of a business meeting. CZSP representatives introduced participants to the cooperative movement operation under martial law conditions and to the tasks for 1982. They also replied to numerous questions concerning problems in individual provinces. Deputy Prime Minister E. Kowalczyk explained to the participants the socio-economic situation in the country and outlined the tasks of work cooperatives, their framework and forms of activity. Gen J. Sosnicki presented certain aspects of martial law. He thanked the members of cooperatives for carrying out economic tasks performed during 1981. [Text] [Warsaw RZECZPOSPOLITA in Polish 15 Jan 82 p 1] 9841

VEGETABLE OIL INDUSTRY—The growing demand for margarine, vegetable shortening, edible oils, as well as increased needs of the fish, confectionary and baking industries, resulted in maximum overloading of the vegetable oil-producing industry. Last year's deliveries were higher than those of 1980 by 24,000 tons. During this year the vegetable-oil industry will have a

difficult period because the insufficient purchase of rape has been further intensified by the lack of import credits. Several trade contracts have not been renewed. Equally alarming, farmers for this year have contracted only 350,000 hectares for rape cultivation, which will not satisfy this industry's demands. [Text] [Warsaw PZECZPOSPOLITA in Polish 15 Jan 82 p 8] 9841

CSO: 2600/300

OFFICIAL DISCUSSES ENERGY STATUS, OUTLOOK, PLANS

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 25 Jan 82 pp 19-21

[Interview with Djuro Podunavac, assistant chairman of the Federal Committee for Energy and Industry, by EKONOMSKA POLITIKA; date and place of interview not specified: "The Concept of Long-term Development"]

[Text] On several occasions at the beginning of this year, the Federal Executive Council [FEC] discussed energy: the disagreements over oil imports have been overcome for the time being by an FEC decision, but temporary measures were adopted instead of a coordinated energy balance. The outline for the long-term development of the Yugoslav power industry until 2000, a document prepared jointly by the Federal Institute for Social Planning and the Federal Committee for Energy and Industry, caused the least disagreement, and even introduced a measure of optimism during the discussion in the FEC. We attempted to clarify what this outline contains and what the main weaknesses of the power industry are in a conversation with Djuro Podunavac, the assistant chairman of the Federal Committee for Energy and Industry.

EKONOMSKA POLITIKA: Two significant things may be concluded from the name of the document on which you worked. First, this has to do with a unified Yugoslav view of the development of the power industry, and second, the long-term development has never been thought out before; usually energy development programs have been adopted along with the medium term 5 year plans. What is the purpose of this outline?

Djuro Podunavac: The outline for the long-term energy development of Yugoslavia until 2000 was drawn up as a basis for reaching agreements among the republics and provinces. Since the agreements are not presented for public discussion, and all of the interested parties should take a position on the long-term development of energy, from associated labor, through the institutes, all the way up to the sociopolitical communities, this material will serve that purpose, because together with the report on a broader examination of the problem of energy development, it will be a basis for drawing up the agreements. The outline was accepted by the FEC and the Federal Committee for Energy and Industry as a solid basis for public discussion.

It is well known that the 5 year plans for energy development are too short. Some power engineering installations take 7 or 8 years to build, and this is even normal for the larger installations, whether they are nuclear power plants, coal mines, or hydroelectric power stations. It was necessary to view energy development on a more long-term basis, but we cannot let it go at this. I think that both the figures and the qualitative elements have to be looked at every year, or at least every 5 years without fail, because this concept was worked out without [taking into account] the long-term development of the economy, and energy is linked to the development of the economy and the standard of living.

EKONOMSKA POLITIKA: Did you use anything from the numerous studies and materials prepared in the last few years by the institutes and energy associations? Where do you expect the most criticism of the outline for long-term development?

Podunavac: We made use of all of the available documents, but the trouble is that changes in energy are so rapid that studies become obsolete very quickly. I will illustrate this with an example: an EEC representative told me at one time about a plan to build 200 thousand megawatts in new nuclear power plants; after a year the plan was revised to 120 thousand megawatts, and after 2 years to 80,000 megawatts. I don't know where they are now, but such changes are a worldwide characteristic. I believe that the most objectives will be to the figures, as has been shown by the discussion so far. We only indicated production, expenditure, imports and exports—thus the balance [of payments]—for 1985 and 2000. The question is why we did not do the same for 1990 and 1995. It is difficult to quantify this now, because in the outline we are predicting basic structural changes in energy and the introduction of several new technologies, specifically processing coal into gas, into liquid fuel, drying coal, briquetting, etc. As far as we know the new technologies will be commercially feasible by the end of the century, but it is difficult to plan whether they will come into use in Yugoslavia in 1988 or 1996.

EKONOMSKA POLITIKA: You only mentioned the processing of coal; surely there are other energy sources involved as well.

Podunavac: Certainly, there are oil shales, new types of energy about which a fair amount is already known, but to what extent they should be developed and how much of a role they will play in our energy balances is for the time being a question without an answer. This is likewise not only a Yugoslav, but also a world characteristic of energy development. Changes in figures are rapid and frequent. There are no great changes, however, in the orientations, policy, and directions of development—all countries have clarified their energy situation, and determined their own possibilities and what they have to go to the world market for. As experience shows us, the world market is very unfavorable because it is dominated by oil. Now coal is beginning to be included in significant quantities. Western Europe, let us say, has a 2 percent growth rate in coal production, and 4 percent in consumption, so that it is already importing large amounts of coal (it is not very much in percentages, but it is very significant in [absolute] quantities).

EKONOMSKA POLITIKA: In the last two medium-term plans we did not lack orientations either. Are the main orientations--domestic energy sources, the replacement of imported sources, more efficient use of energy--still in the long-term outline for energy--still in the long-term outline for energy development?

Podunavac: In my public appearances I have asserted several times that as a country we do have a long-term policy for energy development, although it has never been officially adopted anywhere as a document for development until the end of the century. We established this policy in the 1976-1980 plan and in the 1981-1985 plan. In the main orientations of this outline, we are actually maintaining the same positions as in these plans. We have even heard the objection that all of this is already well known, and that there is nothing new. We do not see any other course. We could, however, discuss our conduct in carrying out the policy adopted.

I must say that our outline consists of about 70 pages, of which half are a review of the situation in the world and an analysis of our development to date, especially in the last 5 years. The other part covers the possible directions of development, which kinds of energy we should develop. In the committee we have the official energy policies of dozens of countries, and they are all presented in three to ten pages of text, with a table and diagram showing the structure of energy consumption. We went farther for the public discussion, in order to obtain a concise text by reaching an agreement among the republics and provinces. The main orientation, furthermore, is reliance upon domestic energy resources--coal and hydroelectric potential; this does not mean that oil, gas, and other sources have been neglected. We have to reduce energy imports to [the level of] our essential needs, because we do not have the domestic sources to give them up entirely.

EKONOMSKA POLITIKA: It is well known that we are an energy-poor country, but industries that are heavy energy consumers have assumed a significant place in our economic plans. Are there at least any traces in the outline of a demand to change our development strategy?

Podunavac: We support a re-investigation of the development plans of those industries that consume a great deal of energy in manufacturing a unit of production, and require cheap energy; but more on this should be expected in the documents on the long-term development of the economy. Energy has become terribly expensive, and through our economic policy measures we are underestimating it, consuming it inefficiently, and pouring it into other products.

EKONOMSKA POLITIKA: It seems that the heart of the matter is in economic policy measures and the relationships established between the sociopolitical communities, and also between the various types of energy.

Podunavac: There is no doubt that we have followed the rest of the world in our basic orientations and our energy policy. We have not been consistent, however, in carrying out this policy. In the 1976-1980 plan, for example, we planned for more coal production and a reduction in oil consumption, namely in the part of the oil that we burn up in our boilers and stoves and that we can replace. When an analysis is performed now, it can be seen that during

that period we increased our oil consumption; since 1976 to 1978 the rate of the growth in oil consumption has been greater than in the period from 1970 to 1978. This was even with fuel oil and heating oil, in which the increase was much greater than in gasoline and diesel fuel, which we cannot replace. I think that by the force of inertia we have continued to increase our consumption as if nothing had happened, although it had been 5 years since the beginning of the "energy crisis." There are several reasons for this: it is easier to handle liquid fuels, it is simpler to build boilers for fuel oil, and we did not have any effect on investment decisions. It seems to me that we did not even realize the extent of the change; although oil increased in price from \$16 to \$96, many people believed that there would not be any more changes in prices. In view of inflation and the fact that in the following 5 years oil became \$10 per ton more expensive, it seemed that oil was cheaper in 1978 than in 1973. A similar confidence existed elsewhere in the world, especially among the energy consumers. In 1979, however, the price of oil went up \$70 per ton, and we had not even recovered from that when prices jumped another \$80 per ton in 1980. Later another \$50 per ton was added to that, so that a ton of oil costs us \$270-280, together with freight costs.

EKONOMSKA POLITIKA: Reasons of inertia may also be discerned from the practice in which a consumer is neither interested nor forced to take energy expenses into account, since a greater outlay is immediately passed on to someone else by raising one's own prices.

Podunavac: Obviously. A difference should be noted: while individual consumers adapt very rapidly to new prices and conditions, in an organization of associated labor we do not behave in that way; we simply need energy, we pay the invoice, and we submit a request for price increases. Three years ago we consumed 2.6 million tons of gasoline, and last year 1.9 million tons. I think that this is one of the basic problems; it always seems to us that someone else is going to pay, and the consequences for the overall economy are pivotal.

We made a calculation: if we compare 60 billion kilowatt-hours of electrical energy from 1980, produced for the most part from domestic coal and water, with 15.17 million tons of derivatives (which is the equivalent in energy, since four kilowatt-hours can be obtained from a kilogram of oil), we receive the following relationships. Electrical energy, which is the final product, was sold to the final consumers for about 60 billion dinars. In 1972 prices the value of the oil was 9.36 billion dinars, but in prices at the end of 1980, 146.25 billion dinars. And oil is a raw material.

Because of the difference in prices it was necessary to pay, as an expenditure, 87 billion dinars more in just 1 year. What does this mean for the economy? This has nothing to do with domestic organizations, or the republics and provinces; oil is mostly imported. With all the difficulties, we are capable of organizing ourselves and paying an invoice for a foreign firm. When we want to change the energy structure, unfortunately, the process of reaching an agreement is endless. Matters are not simple, and instead of paying a foreigner it is necessary to invest in a mine, a thermoelectric station, and a replacement of expenditures. If we want to replace a million tons of oil, let us say, the value of which is about 11 billion dinars, we have to invest approximately 22 billion dinars. Thus, in 2 years we would have eliminated the expenditure for oil through our investment role.

We are thus able to give 87 billion dinars more 1 year, but we are unable to provide the same amount for mines in the course of 5 years, even though this will be returned in 2 or 3 years, will create new income, and will be creating new value for 20 years.

EKONOMSKA POLITIKA: But where do we find the funds, how do we begin this process?

Podunavac: In order to obtain the basis for a healthy start, not only for energy but also for the economy as a whole, we have to start investing somewhere. Look, we are buying oil for 11 dinars a kilogram, and selling it as fuel oil for 8 dinars a kilogram. If we convert it into diesel fuel and sell it to a farmer for a tractor or to a shipper for a truck or bus, we are paying 24 dinars a liter; if we dye the same fuel at an additional expense and sell it as household heating oil, we pay 14.30 dinars per liter. Someone is thus subsidizing this oil combustion. Furthermore, we can convert oil into more valuable products through petrochemistry and secondary refining, for which we have equipped our refineries. If in the next few years we reduce our fuel oil consumption by 3 million tons, and I think that this is the minimum, and converted them into more valuable derivatives, we would save 52 billion dinars each year. This is a source of funds for investments and boiler conversion. There is room in the prices of derivatives for this kind of intervention, but a policy has to be agreed upon and measures have to be adopted.

EKONOMSKA POLITIKA: According to the balances, how much oil do we "burn up" that could be replaced?

Podunavac: In 1980 47 percent of the oil was consumed as fuel oil and household heating oil. But this is not a question of importing less oil, but rather of making better use of it and increasing its value. By the savings in derivatives that we burn up we can ensure a normal growth of requirements for the other part of the irreplaceable derivatives.

EKONOMSKA POLITIKA: Have the changes in the last 2 years, when a reduction in consumption has been evident, been a result of this awareness?

Podunavac: We have not been organized well enough, not even in science, to offer real information to those who adopt economic policy measures. In clear calculations, with clear orientations, we should arrive at this course for the changes in energy structure, which in my view is the only one. As for the changes in consumption, the data show that since 1979 we have made astonishingly great changes, even more radical ones than the developed countries. They are, however, the result of impotence; we were not able to bear the leaps in oil prices, especially in our balance of payments, and so we initiated a price restriction so that no one would be left without energy, enterprises would not come to a stop, and there would not be any shortages. The changes, however, as with others, should be the result of a well thought out policy and the economic measures whose goals we agreed upon and adopted through our main orientations in energy development. In 1979 we consumed 17.4 million tons of derivatives, and last year about 15 million tons, which is 16 percent less. Others have not had such rapid changes. It should not be forgotten that we are still hungry for energy: Slovenia and Croatia consume about a thousand

kilograms of oil per inhabitant, which is close to the European average, but on the other hand Bosnia-Herzegovina consumes 440 kilograms, and Kosovo only 200 kilograms per inhabitant.

Consumption and Reserves

Yugoslavia has about 0.6 percent of the world population, about 0.4 percent of world energy consumption, and only about 0.1 percent of world energy reserves.

Yugoslavia has about 4.1 percent of the population of Europe (without the USSR), about 1.6 percent of its energy consumption, and about 3.4 percent of its energy reserves.

The Structure of Energy Reserves

Coal constitutes 86.6 percent of the total geologic reserves of energy raw materials in Yugoslavia; crude oil and natural gas is 8.4 percent, bituminous shale 3.8 percent, and uranium ore 1.1 percent.

In the energy reserve balances (the degree to which individual types of energy have been researched differs), coal constitutes 95.4 percent, and crude oil and natural gas about 4 percent.

The Structure of Energy Consumption

<u>Year</u>	<u>Coal</u>	<u>Oil</u>	<u>Natural Gas</u>	<u>Hydroelectricity</u>
1965	65.1	18.7	1.7	14.5
1975	37.1	42.0	4.3	16.6
1980	33.6	42.6	7.5	16.3

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DATA ON MOTOR VEHICLE TRANSPORTATION

Belgrade TRANSPORT in Serbo-Croatian No 11, Nov 81 pp 43-49

[Article by Ivo Markovic: "The Operation and Economic Condition of Yugoslav Highway Transportation"]

[Text] The State of Transport Capacities and Needs

Work organizations in Yugoslavia within this group possessed the following motor pool, or transport capacities, at the beginning of 1979:

--11,112 buses with 478,988 seats

--31,613 motorized freight hauling vehicles with a capacity of 324,582 tons

--10,482 freight hauling, attachable vehicles with a capacity of 145,581 tons.

By now these capacities have increased by approximately 10 percent.

The description of motorized freight hauling vehicles in the following table, structured according to capacity, is given to achieve a more realistic picture of the problem of supply.

Capacity	Number of Units
Below 1500 kg	330
1500 to 3000 kg	2,561
3000 to 5000 kg	1,551
5000 to 7000 kg	6,363
7000 to 10000 kg	7,976
over 10000 kg	<u>12,832</u>
	31,613

Motorized freight hauling vehicles with a capacity of over ten tons are well represented in the motor pool of Public Bus Transport [PBT]. However, it should be emphasized that public highway transportation (PHT) has less transport capacity than that which is used for internal needs (inter-production) and for private transport needs, as can be seen in the following survey:

Class Number	Activity	Freight Vehicles %	Attached Vehicles %
1	Public highway transportation (PHT)	19.0%	12%
2	Interproduction	53.7%	38%
3	Private transportation	27.3%	50%
	TOTAL	100.0%	100.0%

PHT's motor pool has a utilization rate of 80.4 percent with buses and 76.7 percent with freight vehicles, while vehicles used in interproduction are used at rates ranging from 36 percent to 38 percent. The advantage of PHT here is apparent. Motor vehicles used in PBT have a relatively short period of service, approximately 5 years. At this time they should be replaced in order to maintain the fleet at a safe and profitable level of operation.

Based on available information concerning fleet vehicles in use, PBT labor organizations need to procure the following number of vehicles every year for replacement purposes: 2,200 buses, 6,300 freight hauling vehicles of which approximately 4,200 must have over ten tons capacity, and 1,000 attachable vehicles.

PBT gets more than 90 percent of its buses in the domestic market. Smaller freight vehicles of up to ten tons and attachable vehicles are purchased from domestic producers, although the labor organizations are often not satisfied with the time of delivery, the selection, the quality, and other aspects of purchase from this source.

The motor pool has not been renewed on a regular basis by PBT labor organizations, especially during the last few years. The result, using data based on a questionnaire given to organizations in the Socialist Republics of Croatia, Serbia, Slovenia, and Bosnia and Hercegovina, is the following distribution of vehicles according to age:

Age in Years	Percentage	Age in Years	Percentage
1	16.1%	6	6.6%
2	14.8%	7	7.6%
3	15.1%	8	7.1%
4	12.1%	9	4.5%
5	9.9%	over 10	7.1%
			<u>100.0%</u>

The problems involved with the supply of commercial vehicles, especially with those over 10 tons, are very complex. The domestic motor vehicle industry cannot completely satisfy the needs of the PBT with regard to quality, selection, and quantity.

Due to the balance of payments situation in Yugoslavia, foreign currency reserves in the Socialist Republics and Autonomous Provinces are limited, and merchandise shipments at the national level are insufficient in order to bring in the required number of vehicles for the replacement of those in the motor pool which are already worn out, unless special efforts are made.

The Communities of Associated Labor expect that organizations which have vehicles for internal needs will have to be organized into basic organizations of associated labor. This process has been accelerated by the energy crisis and by additional measures that followed in its wake during 1978-1980; at this time a number of organizations registered for public transportation.

This process obligates the PBT to fulfill the transport needs of the economy in an effective manner.

In accordance with Resolutions of the Federal Executive Council on the problem of classification, unification, and standardization, a highway transport group took a comprehensive inventory of the state of the motor pool through republic commercial associations and highway transport communities in 1978 and 1979. Based on the predominant quantities, qualities, and needs, and intended for the future reference of Organizations of Associated Labor with regard to imports from markets using convertible currencies and from eastern markets, the following classification schedule was adopted:

	Phase One	Phase Two
Vehicles imported from the western market	Mercedes, Fiat Magirus, Scania Volvo	Mercedes, Fiat Magirus
Vehicles imported from the eastern market	Raba-Man, Skoda Kamaz	Raba-Man, Skoda Kamaz

This program reduces the diversity of the motor pool from approximately 25 makes to only three from the western market and three from the eastern market.

2. Transportation--It's Growth, Efficiency, and Some Comparisons in Yugoslavia

Total transport activity in Yugoslavia, as measured by the volume of transportation services, grew by 950 percent from 1948 to 1980. The transport industry is still young, because it barely existed right after the war. It really came into its own after 1960, and grew by approximately 24 times in the last 20 years. In 1978, 915.3 million passengers were carried by public transportation, which amounted to 28.4 billion passenger-kilometers; 113 million tons of goods were carried, which amounted to 14.2 billion ton-kilometers. Approximately 120 thousand workers are employed in the public transportation industry in Yugoslavia.

The dynamic development of highway transportation has been closely linked with the development and modernization of the highway system, the development of the

motor vehicle industry, and the growth of the need for transport services; all of these elements were the result of rapid economic development, increased international trade, and an increased standard of living.

Highway transportation has developed rapidly because of its adaptability, the nature of its services (door-to-door delivery, speed), and the relatively small investment which is needed to purchase equipment.

The fact that railroads and river transport have experienced rather modest growth has also given a boost to highway transportation.

The great majority of passengers are carried on public highways. Highway transportation carries 88.6 percent of all passengers, and as measured by passenger per kilometer, it accounts for 65 percent of total transport. This statistic is evidence that passengers travel short distances by highway, in accordance with the Social Compact concerning transportation policy in Yugoslavia.

The average distance a passenger was carried in 1978 was,

by railroad	96 km
by highway	31 km
by sea	31 km
by river	160 km
by air	956 km

Highway transportation played a significant role in the transport of goods in 1978. As measured by tonnage of goods carried in 1978, highway transport accounted for 58 percent, railroads 26.2 percent and sea transport 7.2 percent. These proportions change when activity is measured by ton-kilometer: sea transport accounted for 79.7 percent using this measure, railroads 10.2 percent, and highways 7.4 percent. Sea transport obviously carries goods for the longest distances.

The average distance goods were carried in 1978 was,

By rail transport	289 km
By highway transport	94 km
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By sea transport	8,225 km
By river transport	223 km
By air transport	1,814 km

If sea, river, and air transport are excluded from consideration, and railway and highway transportation are compared, then the ratios based on data for 1978 are:

Relation Between Railway and Public Highway Transportation in the Volume of Passengers Transported in the Socialist Federal Republic of Yugoslavia for 1978

	Passengers Carried in '000s	%	Passenger-km in '000s	%
TOTAL	1,048,219	100	39,185	100
Railroads	112,780	10.8	10,445	26.7
Highways	935,439	89.2	28,740	73.3

Source: Saobracaj i veze (Transportation and Communications) 1978, Belgrade, Federal Bureau of Statistics, 1979

Relation Between Railway and Public Highway Transportation in the Volume of Goods Carried in the Socialist Federal Republic of Yugoslavia for 1978

	Goods Carried in '000s of tons	%	Ton-km in '000s	%
TOTAL	259,672	100	40,251	100
Railroads	80,763	31.1	23,378	58.1
Highways	178,909	68.9	16,873	41.9

Source: Saobracaj i veze (Transportation and Communications) 1978, Belgrade, Federal Bureau of Statistics, 1979

From the information presented, it is apparent that, as measured by the volume of service performed in transporting passengers and goods, highway transportation is the dominant form of land transport in Yugoslavia. This is especially true with regard to passengers as 89.2 percent of this traffic is carried by highway: moreover, highway transport accounts for 73.3 percent of passenger-kilometers. In the transportation of goods, it accounts for 68.9 percent of the amount carried and 41.9 percent of ton-kilometers.

What was emphasized above about the transport of passengers can also be said about the transport of goods- highway transport is essentially responsible for carrying goods for shorter distances (the average distance per ton in 1978 was 94 km).

Goods transported by highway are carried for distances less than 500 km 96.7 percent of the time, and 3.3 percent of the time over 500 km, when measured by weight alone. When measured by ton-kilometers, 72 percent of road transport is for distances less than 500 km and 28 percent for those over 500 km. What is true for Yugoslavia is also true for the Socialist Republic of Croatia, with minor differences.

The Amount of Railroad and Highway Transportation in Total Transportation by Republics in 1979

Socialist Republic	Passengers Carried by %		Goods Carried in Tonnage by %	
	Railroad	Highway	Railroad	Highway
1	2	3	4	5
Bosnia and Herceg.	7.3	92.7	47.5	52.2
Crna Gora	10.1	88.8	44.6	35.0
Croatia	17.4	75.2	34.1	37.5
Macedonia	10.5	89.5	25.7	74.3
Slovenia	6.8	89.9	46.0	48.7
Serbia	8.0	91.5	32.7	50.6
Yugoslavia	9.7	88.6	34.4	58.5

The table shows that public highway transportation in Yugoslavia was responsible for 88.6 percent of passenger travel and 58.6 percent of goods carried by tonnage in 1979. In some republics, public highway transportation carried an even greater percentage than the Yugoslav average. Thus, public highway transportation in the Socialist Republic of Croatia in 1979 transported 75.2 percent of all passengers, but this was 13.4 percent less than the Yugoslav average. In the same year in the Socialist Republic of Bosnia and Hercegovina, the percentage transported by public highway transportation was 92.7, or 4.1 percent more than the average.

The relationships in the transport of goods are a little more favorable. Highway transportation carried more than did railroad transportation, but according to the republic the relation was different, and nowhere was it less than the average railroad percentage for the whole country. After the appearance of the energy crisis, the relationships in transportation changed in favor of the of the railroads.

4. Container Transportation in Yugoslavia

The transportation of goods by container transport is becoming more and more popular and its future prospects are good; in the table below, total container transportation according to manner of transport is given for Yugoslavia, including that for public highway transportation:

Year	Yugoslav Railroad		Highway		Sea-Going	
	Container units	Lancani Index	Container units	Lancani Index	Container units	Lancani Index
1973	11,655	-	2,352	-	3,583	-
1974	21,582	185.2	3,920	166.6	7,808	217.0
1975	22,211	202.9	4,591	119.7	10,828	138.7
1976	21,363	96.2	2,956	63.0	7,442	68.7
1977	17,824	83.4	6,532	220.9	12,010	161.4
1978	17,953	100.7	10,126	155.0	54,003	449.6
1979	16,793	93.5	27,130	267.9	145,741	269.9

Source: Federal Bureau of Statistics, Saobracaj i veze (Transportation and Communications) for 1975 and 1976, p 36, 1978, p 36, and 1979, p 36

The data given above show that highway transportation of containers grew by 43 percent between 1973 and 1974. The trend slowed somewhat between 1974 and 1975 with a 19.7 percent increase. The 1975-76 period saw a decrease in container transport in all areas, but mostly in the highway sector, which experienced a 37 percent decline. The world-wide economic recession was responsible for the results for these two years. Highway transportation suffered the most, while ship transport was less effected, and railway transport was effected very little. However, after 1978, container transport resumed its growth. Highway transport of containers increased 167.9 percent between 1978 and 1979.

Transportation of Containerized Goods In Yugoslavia (in '000s tons)

Year	TOTAL	By rail	Highway	Sea	Lacani Index
1977	637	185	152	300	-
1978	790	146	287	357	119
1979	1,546	140	776	630	195
1980	1,980	300	930	750	128

According to the data given, containerized transport of goods in all areas increased by 19 percent between 1977 and 1978, by more than 95 percent between 1978 and 1979, and by approximately 28 percent between 1979 and 1980. The greatest increase was achieved by the highway transport of containerized goods, as measured by the tonnage of goods carried.

5. The Economic Condition of Public Highway Transportation in Yugoslavia

In spite of all difficulties, this area of transportation brought in revenues totaling 51.1 billion dinars in 1979 for all of Yugoslavia, an increase of 43 percent over the previous year. Net income was 20.3 billion dinars, an increase of 38 percent over the year before. This amount is important for the

whole society, but especially for improving the business environment and way of life of transport organizations. Despite the struggles and difficulties, highway transport businesses achieved results which compare well with the average business in Yugoslavia. This means that a desirable rate of growth was maintained in spite of various problems. These claims are substantiated in the following table:

Business Indicators for 1979

Category	1978	1979	Index
1 Revenue brought in by each worker	140,399	175,084	125
2 Accumulation in proportion to net income	5.6	7.9	-
3 Accumulation in proportion to average utilization of business assets	2.8	4.0	-
4 Production capacity rate	20.5	20.4	-
5 Average net personal income per month per worker	5,063	6,309	108

Evaluating the basic categories of business indicators of Yugoslav public highway transportation, both revenues and worker's average personal income are satisfactory, as they roughly correspond to the results and values achieved in the economy as a whole.

In addition to these indicators and results, there are the following: labor productivity grew by 2.5 percent, business savings fell by 2 percent, business profitability remained at the previous year's level.

The large increase in material expenses is the result of increased fuel prices, as well as higher prices for other products and services used by public highway transport. Increased business expenses are not only the result of higher prices, but also the result of using a large number of vehicles which are in need of replacement. The inadequate supply of vehicles in the market, especially those capable of carrying large tonnage loads, necessitates the use of older vehicles which require a large investment in current and preventive maintenance.

Public highway transportation in the future is going to encounter a number of real problems which will hinder and retard its financial results. Among the most important is the fact that the increased price for transport services in 1979 did not completely cover increased costs of products and services incurred by public carriers in the use of their vehicles. Because of this, expenditures

grew faster than revenues, and this disturbed relations in primary distribution.

After considering the existing situation with regard to public highway transport, one can say that it will probably maintain its market share, but this will require increasing effort, especially because of the significant increase in the cost of fuel.

Today's conditions require much careful and skillful organization, association, and attempts at finding new ways to pool labor and resources. Improvements can best be made in the more efficient utilization of what's available and in reducing unprofitable runs and consumption as much as possible.

Problems of the Current Role of Domestic Highway Carriers in the International Transport of Goods

1) Transport of Goods

In spite of both the energy crisis and a stagnating economy, the role of motor transport in the international exchange of goods continues its healthy growth. The increased volume of rail and highway transport in the import and export of goods from 1970 to 1980 is illustrated by the following data for a number of European countries (based on the Annual Bulletin of Transportation Statistics for Europe for 1979).

Country	Growth Index	
	Railroad	Highway Transport
Austria	104.6	213.7
France	96.7	185.0
Socialist Republic of Germany	111.5	249.0
Hungary	127.4	397.4
Italy	93.1	164.9
Yugoslavia	161.2	166.9

The reasons for the significant increase in the role of highway transportation in international trade are twofold: the basic technological and operational characteristics of this form of transport, and the fact that, along with sea transport, it is the basic means of transport to countries in the Near and Middle East.

The main reason that transport by international highway from Europe to the developing countries, especially to the Near and Middle East, has developed so fast is that these countries have undeveloped railroad connections, crowded port terminals, and in general are poorly equipped to handle transportation duties because of lack of equipment, inadequate unloading facilities, and lack of trained personnel. Another reason for the growth of highway transportation is that it is easily combined with other forms of carriage.

2. The Role in the Country's Balance of Payments Situation

Motor transport has an advantage in international trade because the country of the shipper is guaranteed revenue throughout the entire process of carriage, from receipt of the goods to the transportation and delivery to the recipient. This is one reason some countries use to justify developing their freight hauling motor pool to a level well above that necessary for their own international trade dealings (Holland, Bulgaria, Austria, and more recently, Hungary, have all done this).

Yugoslav auto-transport realized a gross foreign currency income of approximately \$135 million in 1980. The net foreign currency amount was approximately \$75 million. These results are even more significant considering that the motor fleet is not particularly large, it is rather old, spare parts are in short supply, and that many other difficulties also exist.

3. The Capacity of Our International Highway Transport Facility

Approximately 11 percent of our vehicles are used in international transport, accounting for 13 percent to 14 percent of total weight capacity. The fleet consists of 1,500 trucks, about the same number of tractors, and about 2,000 trailers and semitrailers. Only about 120 refrigerator trucks can be used for international transport.

This fleet is quite small and inappropriate in comparison to ones possessed by some other European countries which are even smaller than Yugoslavia. For example, the specialized Bulgarian enterprise for international transport, SO MAT, has approximately 6,000 modern tractor vehicles, and about 9,000 semitrailers, of which 3,000 are refrigerated. The Hungarian enterprise Hungarokamion, has about 1,100 refrigerated trucks, etc.

Economic and social justification for renewing the motor fleet of our country is provided by the following practical example. In order to export 10,000 tons of meat to the Middle East, the services of a shipper must be engaged because our fleet of motorized, refrigerated vehicles cannot guarantee the continuous transport of this amount. The number of transports which would be required to carry out the task both ways is 600. The price of the transport for each ton of goods is about \$450, or, for each vehicle with a 16.5 ton capacity, \$7,425, and for all 600 transports, \$4,455,000 (133 million dinars). The price for one refrigerator truck is about 3 million dinars, which means that 44 refrigerator trucks could be bought for the freight charges paid to the shipper. This fleet of trucks could realize a gross foreign currency income of 220 million dinars a year, or a net income of 110 million dinars, an amount which could purchase 36 new vehicles.

4. Transport of Passengers

The transport of passengers in the territory of Yugoslavia is performed by Yugoslav and foreign carriers using autobus lines and van transport.

The transport of passengers is regulated, as is the transport of goods, by corresponding agreements between Yugoslavia and almost all European countries, while carriers outside of the contract countries carry out transportation services on the basis of the Law Concerning Transportation in International Highway Transport.

Among Yugoslavia and other countries, 168 lines are maintained, of which 135 are year-round, and 33 operate on a seasonal basis. Yugoslav carriers operate 80 full-time and 8 seasonal lines, while foreign carriers operate 55 full-time and 25 seasonal lines. Yugoslav carriers have 22,300 departures a year (one-way) and foreign carriers 13,700.

Although one might conclude from the above that Yugoslav carriers are in a favorable position, this is not necessarily so. The situation changes when one takes into consideration the distance traveled by the carriers of one country into the territory of the other. By this measure, things are equalized, because Yugoslav carriers do not travel as far in foreign countries as foreign carriers do in Yugoslavia.

International bus lines which operate between Yugoslavia and other countries are of various lengths and range from two or three kilometers (in border zones) to routes with distances of over 1000 kilometers (between Yugoslavia and Turkey, France, and the Socialist Republic of Germany).

5. Transit Lines of Foreign Carriers Through Yugoslavia

Recently, the increased interest of foreign carriers in establishing transit bus lines through Yugoslavia has been of note. These lines are primarily being established to satisfy the need of carrying citizens from countries in southeastern Europe (Greece and Turkey) to and from temporary employment in Western Europe. Nine of these lines are in operation now, although there are indications that this number is greater and that some lines are operating without our official approval. These lines travel between the Yugoslav-Italian and Austrian borders, and the Yugoslav-Greek and Bulgarian borders, running in parallel with the railroad line which connects Ljubljana (or Maribor) with Zagreb, Belgrade, and Nis (or Skopje).

The status of these transit lines, as well as their approval, is regulated by agreements involved with highway transportation; several of the agreements provide extremely liberal treatment of the lines if another form of transportation (usually railroad) also provides service along the same route.

Our country does not have any real interest in encouraging the establishment of these lines, except for the common goal of using public transportation to a greater extent to save fuel, and to reduce the number of vehicles on overburdened travel routes.

Limiting opportunities for establishing transit lines would, however, provoke certain political difficulties because of violation of the principle of free transit.

International van transportation is mostly used to carry tourists, as well as our citizens who are temporarily residing abroad. The number of tourists carried is unknown because these statistics are not kept separately, but it is certainly a significant number. Virtually all of the transport of foreign tourists in our country is carried out by foreign carriers with their own buses.

6. The Compensation Regime

Most bilateral agreements, concluded to remain in effect for 60 years, provide for mutual freedom from compensation for traveling purposes. Based on platforms adopted by the Federal Executive Council, resolutions passed by mixed commissions, or other regulations facilitated by agreement, an exchange of compensation regimes with regard to transit transportation has taken place, without formal agreement, with the following countries: Austria, Belgium, Bulgaria, Denmark, France, Greece, Holland, Italy, Norway, Poland, Rumania, Switzerland, Sweden, and the United Kingdom. Vehicles carrying goods which are registered in these countries, as well as in Finland, pay compensation in transit through Yugoslavia.

Expanding the compensation regime to practically all transit activities and to a significant number of bilateral transport activities performed by foreign vehicles in our country led to a large increase in the total amount of compensations collected. These amounts for the last 7 years are listed below (in thousands of new dinars):

1974	72,768 (index:100)
1975	131,698 (index:181)
1976	262,080 (index:360)
1977	338,279 (index:465)
1978	446,783 (index:614)
1979	502,553 (index:691)
1980	470,482 (index:847)

Compensations collected for the first three months of 1981 came to 124.92 million new dinars, compared to 91.25 million for the same period last year (index:137).

Based on the new international highway transportation law prepared 10 May 1981, a new compensation structure for road use in Yugoslavia is now in use. This new structure changes both the basis of compensation (gross ton-km instead of net ton-km) and the level of compensation. Using the new structure will result in approximately one billion new dinars a year more revenue, based on the same amount of international highway traffic as in 1980.

Permits and Transportation Performed

The total number of permits issued to foreign carriers and the number of entries of foreign freight hauling vehicles for the last 4 years are presented in the table below:

Year	Number of Permits	Total Number of Entries	Entries in Transit
1976	188,602	370,000	299,000
1977	206,565	346,000	280,000
1978	207,751	327,000	271,000
1979	211,686	294,000	237,000
1980	232,069	292,000	238,000

According to this, the number of entries is on the decline.

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